Sunshine 100 China Holdings Ltd
陽光100中國控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2608)

INSIDE INFORMATION
(1) FULFILLMENT OF RESUMPTION GUIDANCE
(2) RESPONSE TO AUDIT ISSUES
(3) INTERNAL CONTROL REVIEW AND IMPROVEMENT
(4) RESUMPTION OF TRADING

This announcement is made by Sunshine 100 China Holdings Ltd (the "**Company**", together with its subsidiaries, the "**Group**") pursuant to Rule 13.09 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Reference is made to the announcements of the Company dated 31 March 2022, 10 May 2022, 22 July 2022 and 29 June 2022 in relation to the suspension of trading in the Company's shares, the change of auditor of the Company, the resumption guidance from the Stock Exchange and the fulfilment of resumption guidance (the "**Announcements**").

1. FULFILMENT OF RESUMPTION GUIDANCE

As disclosed in the Announcements, trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on 1 April 2022 due to the delay in publication of the audited preliminary results of the Group for the year ended 31 December 2021 (the "**2021 Audited Annual Results**").

On 24 June 2022, the Company received a letter from the Stock Exchange setting out guidance for resumption of trading in the shares of the Company (the "**Resumption Guidance**"). The Company hereby announces that it has fulfilled the Resumption Guidance on the following basis.

Resumption Guidance 1 – publish all outstanding financial results required under the Listing Rules and address any audit modifications

The Company has published the 2021 Audited Annual Results, the interim financial results of the Group for the six months ended 30 June 2022, the audited preliminary results of the Group for the year ended 31 December 2022 (the "**2022 Audited Annual Results**") and the interim financial results of the Group for the six months ended 30 June 2023 on 20 September 2023. As at the date of this announcement, the Company does not have any outstanding financial results required to be published under the Listing Rules.

Please refer to the section headed "Response to Audit Issues" in this announcement below for further information addressing the audit issues that caused the delay in publication of the 2021 Audited Annual Results.

Resumption Guidance 2 – demonstrate the Company's compliance with Rule 13.24

Sufficient Operations

The Group is principally engaged in property and land development, property investment, property management and hotel operation in China.

As disclosed in the Company's 2022 Audited Annual Results, the Group's (i) audited gross profit amounted to approximately RMB455.9 million, and (ii) audited revenue amounted to approximately RMB2,357.6 million for the year ended 31 December 2022. Moreover, the Group achieved a contracted sales of approximately RMB1,205 million (including that from projects with minority interests amounting to RMB440 million) corresponding to a contracted sales area of approximately 106,454 sq.m.

Sufficient Assets

As at 31 December 2022, the Group's (i) total assets was approximately RMB52,383.1 million; and (ii) total net assets as at 31 December 2022 was approximately RMB3,986.1 million, as set out in the Company's 2022 Audited Annual Results.

As such, the board (the "**Board**") of directors of the Company is of the view that the Group has a viable and sustainable business with a sufficient level of operations and assets of sufficient value to support its operations to meet the requirements under Rule 13.24 of the Listing Rules and warrant the continued listing of the Company's shares on the Stock Exchange. Accordingly, the Company is of the opinion that Resumption Guidance 2 has been fulfilled.

Resumption Guidance 3 – announce all material information for the Company's shareholders and investors to appraise its position

The Company has continued to update the market on its development since the suspension of trading in its shares to keep the Company's shareholders and other investors informed of the latest development in order to appraise the Company's position. Reference is made to the announcements issued by the Company between 1 April 2022 and 20 September 2023. The Company has complied with the applicable Listing Rules and the disclosure of inside information provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong), and has announced all material information relating to the Group for the Company's shareholders and investors to appraise the Group's position. Accordingly, the Company is of the opinion that Resumption Guidance 3 has been fulfilled.

2. RESPONSE TO AUDIT ISSUES

Reference is made to the Company's announcements dated 10 May 2022 and 22 July 2022 in relation to the change of auditor of the Company. As disclosed in the aforementioned announcements, the Company's previous auditor had identified in its letters to the Company a number of matters requiring explanations and/or supporting documents (the "**Outstanding Matters**"). The Company's auditor, Mazars CPA Limited ("**Mazars**"), has conducted audit work and has formed views on the Outstanding Matters. The Company and its audit committee (the "**Audit Committee**") have also considered and have formed views on the Outstanding Matters. The Board would like to provide shareholders and potential investors of the Company with the following additional information.

(1) Provision of loans to third parties and payment of financial advisory fees and interest expenses (the "Transactions") and their related Listing Rules implications

Background

The Company's previous auditor noted that the Company had receivables amounting to RMB1,389.9 million as at 31 December 2021. Out of this, RMB838.1 million related to certain term loans (the "**Loans**"), which had been granted by the Company to certain third parties between December 2020 and April 2021, and RMB551.8 million was finance costs (comprising interest expense and financial advisory fees) paid to certain third parties between April 2021 and July 2021 under various loan agreements (the "**Loan Agreements**") and financial advisory agreements ("**FA Agreements**"). The Company's previous auditor had further noted that the Loans may potentially constitute notifiable transactions and/or connected transactions of the Company under Chapters 14 and 14A of the Listing Rules.

The Loans comprised three loans of the principal amount of up to RMB250,000,000, RMB550,000,000 and RMB250,000,000. Two of the Loans are indirectly secured by a collateral on a commercial building located in a prime commercial district in Beijing (the "**Building**"), and all three borrowers of the Loans were introduced to the Company by a financial institution as an asset package deal. The Group granted the Loans mainly due to its consideration that the grant of the Loans will provide the Company with the opportunity to potentially acquire the Building at an attractive price. For details, please refer to the Company's major transaction announcement dated 20 September 2023 on provision of financial assistance.

The Group entered into the Loan Agreements with three lenders between March 2020 and March 2021. One of such lenders who extended RMB200 million to the Group is a connected person at the subsidiary level. As the RMB200 million loan was made on normal commercial terms or better, such loan is fully exempt from the reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.90 of the Listing Rules. The Group also entered into the FA Agreements with four financial advisors between September 2020 and March 2021. The financial advisors utilized their knowledge, experience and network in sourcing and obtaining funds for the Company to meet the Company's short-term liquidity needs. Due to the COVID-19 outbreak and the corresponding prevention and control measures in China in early 2020, the Company began to experience liquidity issues in 2020. Interest-bearing liabilities, corporate debts and interest became due for repayment. In order to prevent a chain of adverse effects in the event of default, the Company entered into the Loan Agreements arranged by such financial advisors to obtain short-term funding to repay the Company's debts as they fell due.

Mazars' audit work

In addressing the matters, Mazars had performed certain pin-point audit procedures, including but not limited to (1) discussing and understanding the background (including the nature, business rationale, economic substances and relationship of the counterparties) of the Transactions and the Loans with the management of the Group with reference to the relevant correspondence between the Group and the previous auditor, the relevant supporting documents (including agreements and other transaction records), external professional legal advice and interviews with selected counterparties, (2) reviewing and assessing the internal procedures and control for the payments of the Transactions; (3) assessing the expected credit losses ("**ECL**") allowance for the Loans with reference to the Group's internal credit assessment and external professional valuers' advice; and (4) assessing the disclosure on related/connected parties' transactions and balances made in the Company's consolidated financial statements for the year ended 31 December 2021 (the "**2021 Annual Consolidated Financial Statements**").

Mazars' views and material findings

Background of the Transactions

Notwithstanding that certain Loan Agreements with lenders and FA Agreements were not duly signed by the counterparties and/or retained by the Group, direct confirmations have been sent to and/or interviews have been arranged with the counterparties to confirm the relevant key terms of transactions. Adequate accruals have been made for the Group's obligations under the Loan Agreements with lenders and FA Agreements in the 2021 Annual Consolidated Financial Statements.

Mazars is not aware of any evidence contradicting the background (including nature, business rationale, economic substances and relationship of the counterparties) of the Transactions and the Loans provided by the Company's management and disclosed in the 2021 Annual Consolidated Financial Statements.

Internal control

For good corporate governance reasons, Mazars recommended the Group to put in place a more well-defined internal control policy and procedure for payment approval matrix. For details, please refer to the section headed "Internal Control Review and Improvement" in this announcement below.

ECL allowances

Mazars is of the view that the ECL allowance for the Loans have been properly recognised and disclosed in the 2021 Annual Consolidated Financial Statements.

Disclosures on related/connected parties' transactions and balances

Mazars is of the view that adequate disclosure on related parties pursuant to Hong Kong Accounting Standards 24 has been made in the 2021 Annual Consolidated Financial Statements. Potential connected persons for the Listing Rules purpose have been identified and communicated to the Company's management for further assessment.

Company's and Audit Committee's views

The Company and the Audit Committee consider the accounting team's accounting error of initially and inadvertently recording the finance costs of RMB551.8 million in certain "receivables" accounts of the Group's unaudited management accounts is due to the limited background from the business team and / or miscommunication in between, pending further clarification of transaction nature from the management and conclusion of accounting treatment with the auditors.

The Company and the Audit Committee are satisfied with the payment arrangement and the accounting treatment for the Transactions (including the Loans and its accrued interest, the ECL provision and the finance costs, etc.) in the 2021 Annual Consolidated Financial Statements. In particular, the Company and the Audit Committee consider there is adequate business rationale and economic substance for the Group to enter into the Transactions and the Loans pursuant to the Loans Agreements and the FA Agreements. The relatively high total finance costs incurred for the relevant loans obtained by the Company is justifiable in the context of the Company's liquidity position and it is in the best interest of the Company's shareholders, as a whole, to obtain such financing in order to maintain the Company's liquidity.

The Company and the Audit Committee consider that the payments of the Transactions as authorised by two directors of the Company are in compliance with the Company's internal control and corporate governance policy on payments . For better promotion of corporate governance, the Company and the Audit Committee agreed with Mazars' suggestions to adopt a best practice of internal controls and corporate governance on payments and therefore, enhanced internal control measures was carried out in an orderly manner and has been completed. For details, please refer to the section headed "Internal Control Review and Improvement" in this announcement below.

With reference to a professional valuer credit assessment report on the Loans and the management's assessment on related ECL exposures, the Company and the Audit Committee consider adequate allowances on the advances had been properly recognised and disclosed in the 2021 Annual Consolidated Financial Statements.

The Company and the Audit Committee have considered the work conclusions from Mazars in respect of the potential connected person assessment and confirm that the counterparties to the Loans did not involve any connected persons for the Listing Rules purpose. The Company has also been advised that the Loans, on an aggregated basis, constituted a major transaction of the Company under Chapter 14 of the Listing Rules. The Company acknowledges that its failure to comply with the reporting, announcement and shareholders' approval requirement under Chapter 14 of the Listing Rules constituted non-compliance with the Listing Rules. Such failure was an inadvertent mistake partly due to the change of personnel of the Company at or around the time of entry of the Loans resulting in a misunderstanding of the Listing Rules. For details, please refer to the Company's announcement dated 20 September 2023. The Company also acknowledges that there are deficiencies in its internal control procedures. For details, please refer to the section headed "Internal Control Review and Improvement" in this announcement below.

(2) Balance of overdue loans and borrowings and default and cross-default of bonds and notes, and material uncertainties on the Company's ability to continue as going concern

Background

Certain balances of loans and borrowings were overdue. In addition, certain bonds and notes were overdue, which triggered the cross-default of certain senior green notes and senior notes.

The previous auditor was not provided with sufficient information and/ or supporting documents on the classification of loans and borrowings in the consolidated statement of financial position and audit work in relation to the assessment of contingent liabilities and going concern basis for the preparation of the 2021 Annual Consolidated Financial Statements.

Mazars' audit work

In addressing the matters, Mazars had performed certain pin-point audit procedures, including but not limited to (1) assessing the classification, disclosure and recognition of overdue loans and borrowings and default and cross-default of bonds and notes (the "**Over-due, Default and Cross-default**") and contingent liabilities through reviews of the relevant loans agreements and contracts, discussion with the management of the Group to understand the latest status of the Over-due, Default and Cross-default and the latest negotiation status and settlement plan (if any) with the key creditors and performance of litigation searches and (2) understanding and assessment of the management's assessment on the material uncertainties related to going concern.

Mazars' views and material findings

Mazars is of the view that the facts and circumstances of the Over-due, Default and Cross-default and contingent liabilities have been properly disclosed in the 2021 Annual Consolidated Financial Statements, and the recognition, measurement and the disclosure on the impact of the Over-due, Default and Cross-default and contingent liabilities in the 2021 Annual Consolidated Financial Statements are appropriate. Since the Over-due, Default and Cross-default resulted in multiple material uncertainties related to going concern, adequate disclosures have been made in the 2021 Annual Report regarding the Company's measures in addressing such going concern issues (the "**Company's Measures**"). However, there remains unresolved multiple material uncertainties relating to the future potential outcome of the Company's Measures; such multiple material uncertainties cannot be resolved by way of disclosure made in the absence of any committed debt restructuring and/or future financing plan; and disclaimer opinion was issued by Mazars on the 2021 Annual Financial Statements due to multiple material uncertainties relating to going concern.

Company's and Audit Committee's views

Nevertheless, the Company and the Audit Committee remain optimistic about the Company's going concern status. However, the Company and the Audit Committee recognised that in the absence of a committed debt restructuring and/or future financing plan, the Company is not yet in a position to fully resolve the multiple material uncertainties about the potential outcomes of the Company's Measures.

The Audit Committee has reviewed the auditor's report (including the disclaimer opinion) for the year ended 31 December 2021 and discussed the disclaimer opinion with the management of the Company and Mazars. The Audit Committee agreed with the view of the Company's management with regards to the disclaimer opinion and concurred with the issuance of disclaimer opinion by Mazars on the 2021 Annual Consolidated Financial Statements relating to going concern. There was no disagreement on the disclaimer opinion between the Audit Committee and the Company.

3. INTERNAL CONTROL REVIEW AND IMPROVEMENT

The Company has accepted Mazars' recommendation for improving and enhancing internal control, and has engaged an external internal control consultant (the "**Consultant**") to conduct an internal control review and assist the management to improve the Company's internal control system.

Scope of Work of Internal Control Review

The internal control review records, tests and evaluates the effectiveness of the procedures, systems and monitoring measures formulated by the Group, and covers the following companies of the Group:

– the Company; and

– Sunshine 100 Real Estate Group Co., Ltd. (陽光壹佰置業集團有限公司).

It covers the following operating cycles of the above companies:

– procedures for notifiable transactions and connected transactions under Chapter 14 and Chapter 14A of the Listing Rules;

– payment cycle; and

– loan cycle.

Key Deficiencies

Below are the key deficiencies of internal control review identified by the Consultant:

Key deficiencies of internal control review identified

1 Procedures for notifiable transactions and connected transactions under Chapter 14 and Chapter 14A of the Listing Rules

The Company's previous auditor noted that the Company had receivables amounting to RMB1,389.9 million as at 31 December 2021. Out of this, RMB838.1 million related to certain term loans (being the Loans), which had been granted by the Company to certain third parties between December 2020 and April 2021, and RMB551.8 million was finance costs (comprising interest expense and financial advisory fees) paid to certain third parties between April 2021 and July 2021 under various loan agreements and financial advisory agreements. The Company's previous auditor had further noted that the Loans may potentially constitute notifiable transactions and/or connected transactions of the Company under Chapters14 and 14A of the Listing Rules.

However, the Company did not comply with the reporting, announcement and shareholders' approval requirement under Chapter 14 of the Listing Rules.

The Consultant recommended that a designated responsible personnel should be assigned to perform size test before entering into material transactions. It is also recommended that the record of size test should be properly kept for future reference.

The Company has published a Chapter 14 notifiable transaction announcement in respect of the Loans on 20 September 2023. Please refer to the announcement for details. The above recommendations have been implemented by the Company.

2 Payment cycle

No upper limit in relation to payment approval was set for each approver of the Company and Sunshine 100 Real Estate Group Co., Ltd.

The Consultant recommended that an upper limit in relation to payment approval should be set for each approver in the authorization matrix.

The Company has updated its approval policy and an upper limit has been set for approver. When the payment amount exceeds the maximum threshold, approval from two executive Directors would be required.

3 Loan cycle

No upper limit in relation to loan contracts approval was set for each approver of the Company and Sunshine 100 Real Estate Group Co., Ltd.

The Consultant recommended that an upper limit in relation to loan contracts approval should be set for each approver in the authorization matrix.

The Company has updated its financing management policy and approval policy and an upper limit has been set for each approver. When the loan amount exceeds the maximum threshold, approval from two executive Directors would be required.

The Consultant has provided other recommendations for addressing the identified deficiencies and risks, and the Company has taken proactive measures to implement these recommendations. These actions include providing training to the Company's directors, senior management and employees, enhancing and developing appropriate internal control and corporate governance policies. The rectification plan was carried out in an orderly manner and has been completed. Several Company's governance policies have been amended and approved, including payment policy and financing policy. The list of connected persons has been updated, approved and circulated amongst the senior management. Several trainings for senior management, financial personnel and employees are also completed.

The Company has further engaged an external internal controls consultant to conduct internal control review of the Company over (i) procedures for notifiable transactions and connected transactions under Chapter 14 and Chapter 14A of the Listing Rules, (ii) payment cycle; and (iii) loan cycle, on a regular basis.

Based on the above, the Company and Audit Committee consider that the Company has in place adequate internal controls and procedures to meet its obligations under the Listing Rules. A further review by the Consultant will be undertaken in one to two months' time after the Consultant obtains sufficient transaction samples for review to ensure effective implementation of the internal controls.

4. RESUMPTION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange was suspended with effect from 9:00 a.m. on 1 April 2022. Application has been made by the Company for the resumption of trading in the shares of the Company on the Stock Exchange with effect from 9:00 a.m. on 21 September 2023.

By Order of the Board
Sunshine 100 China Holdings Ltd
Yi Xiaodi
Chairman and Executive Director

Beijing, the PRC
20 September 2023

As at the date of this announcement, the executive directors of the Company are Mr. Yi Xiaodi and Mr. Fan Xiaochong, the non-executive directors of the Company are Ms. Fan Xiaohua and Mr. Wang Gongquan, and the independent non-executive directors of the Company are Mr. Gu Yunchang, Mr. Ng Fook Ai, Victor and Mr. Li Chunping.