太陽國際集團有限公司

SUN INTERNATIONAL GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8029)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE FINAL RESULTS ANNOUNCEMENT AND THE ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2018

Reference is made to the announcements (the "**Announcements**") of Sun International Group Limited (the "**Company**") dated 22 June 2018 and 26 June 2018 relating to, among others, the audited consolidated financial results (the "**Final Results**") of the Company and its subsidiaries for the year ended 31 March 2018 and the annual report (the "**Annual Report**") for the year ended 31 March 2018. Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as in the Announcements.

In addition to the information provided in the Announcements and the Annual Report, the Board would like to provide the following further information in relation to the qualifications for the auditor's opinion.

LOAN RECEIVABLE

The relevant loan receivable including interest receivable of HK$73 million as at 31 March 2018 included loans to three borrowers which were not repaid on the maturity date and have been outstanding for a certain period of time without renewal as at 31 March 2018. Two of the relevant borrowers did not fully comply with the repayment schedule in the relevant deeds of settlement. The other relevant borrower had not entered into a loan renewal agreement with the Group after the loan fell due at the time of issuance of the auditor's report despite the intention to renew the loan. As such, the auditor doubted the recoverability of the loan receivable and was unable to obtain sufficient and appropriate audit evidence.

The Directors are of the view that this audit qualification mainly arouse from differences in judgment between the management and the auditor though some of the internal control measures of the money lending business of the Group could be improved to address the issues relating to the audit qualification. At the time of issuance of the Final Results, the Directors were confident that the overdue receivable could be recoverable having considered, among others, the past repayment records of the borrowers, the enforceability of the relevant loan agreements and deeds of settlement, the security provided by one of the borrower, the financial conditions of the borrowers and the fact that one of the borrower had promised to enter into a loan renewal agreement and almost paid all the outstanding interest as at 31 March 2018.

The audit committee had reviewed and agreed with the Directors' position on this qualification.

Subsequent to the issuance of the Final Results, the Group has taken the following actions to resolve the audit qualification for its money lending business:

(i) the Group entered into a new loan agreement with one of the borrower on 6 August 2018 to renew the loan to such borrower in the principal amount of HK$20,000,000 for a fixed term of 12 months from the date of drawn down at an interest rate of 18% per annum which the interest is payable on monthly basis in the sum of HK$300,000 each calender month. Mr. Cheng Ting Kong ("**Mr. Cheng**"), the chairman of the board of directors and a controlling shareholder of the Company, entered into a deed of indemnity on 30 August 2018 in favour of Sun Finance Company Limited, a subsidiary of the Company and the lender to such borrower, to indemnify Sun Finance Company Limited against all losses and damages out of any failure by such borrower to repay all or any part of the loan or interest or any costs under the new loan agreement. For details of the new loan agreement, please refer to the announcement of the Company dated 6 August 2018. On 7 November 2018, such borrower prepaid all the outstanding principal and interest under the new loan agreement in full; and

(ii) the Group entered into a deed of settlement with the other two borrowers on 11 September 2018 pursuant to which such borrowers shall make full repayment of the outstanding loans and interest and the interest accrued thereon by monthly instalments of HK$2.5 million each. So long as such borrowers duly comply with the deed of settlement to make monthly repayment of HK$2.5 million each, the Company considers that no provision for the debts owing by such borrowers is necessary to be made by the Group. If such borrowers do not comply with the terms of the deed of settlement, the Group will take the necessary actions to recover the debts and make sufficient provision for the debts if necessary. For details of the deed of settlement, please refer to the announcement of the Company dated 11 September 2018.

The Company had engaged an internal control consultant to conduct a review, and provide recommendations, on certain scope of the internal control system of its major operating subsidiaries.

According to the findings of the internal control consultant, the following issues which were relevant to the audit qualification for the money lending business of the Group were identified:

(i) lack of an updated latest applicable internal control procedure;

(ii) lack of formalised procedure to follow up on overdue loans; and

(iii) no formalised procedure in writing to handle the application of loan renewal and no formalised evaluation on the collaterals before approval of the loan renewal.

The Group has adopted or will adopt the following measures to address the above internal control issues:

(i) the internal control manual for the money lending business will be updated to better reflect the operation flow of Sun Finance Company Limited, a subsidiary of the Company which engages in the money lending business;

(ii) the procedures for following up with overdue loan with regular reporting will be formalised in written format; and

(iii) loan renewal approval procedures will be strengthened to include collateral review procedure and credit risk assessment before the approval of the loan renewal.

The Company considers that all the internal control issues of the money lending business in relation to the audit qualification identified by the internal control consultant will be rectified by the above measures.

In view of the above, the Company expects that the audit qualification for the money lending business will be resolved for the year ending 31 March 2019.

ADVANCES TO CUSTOMERS IN MARGIN FINANCING

The auditor’s basis of impairment for HK$16 million was the difference between book value of advances to customers on margin financing and the total adjusted loan balance. In calculation of the adjusted loan balance for each customer, the lesser of the amount of the margin loan balance and the amount of the adjusted market value of securities pledged after the haircut in accordance with the Securities and Futures (Financial Resources) Rules (the “**FRR**”) for each margin client is selected and the total adjusted loan balance is the aggregate sum of the adjusted loan balances of all margin clients. The auditor was also suspicious of the collectability of the total receivable of HK$25 million of margin balance of a largest customer as at 31 March 2018.

The Directors are of the view that this audit qualification arouse from differences in judgment between the management and the auditor though some of the internal control measures of the securities services business of the Group could be improved to address the issues relating to the audit qualification. The Company considers that the FRR calculation is only one of the stress testing methods to ensure a licensed corporation has sufficient required liquid capital for daily operation to fulfill its obligations under the Securities and Futures Ordinance, but there is no direct relationship with the basis of impairment. As at 31 March 2018, the Group advanced HK$80.45 million to clients for margin financing. These advances were secured by clients' stocks with HK$220.76 million in market value. After reviewing clients' portfolios, the Company found that for every accounts receivable of margin financing, there were stocks as collateral from client's securities account, and all stocks were allowed for trading on the Stock Exchange. The market value of most of the clients' stocks was higher than their outstanding balances. Hence, the Company believed that those advances to customers could be recoverable and there was no necessity for making impairment in its financial accounts for the year ended 31 March 2018.

For the largest customer, his outstanding balance was HK$25 million but the market value of his stocks deposited into his securities account was HK$70 million as at 31 March 2018. The loan-to-value ratio was about 35%. His stocks could be traded on the Stock Exchange. The Company also assessed his financial background and found that he was a substantial shareholder of a listed company holding 61.5% of the issued voting shares. The net asset value as at 31 December 2017 of that company was approximately RMB672 million according to its audited annual report. In respect of the account of this largest customer, the Group had made necessary assessment of the risk of his shares, his loan size and his financial background starting from 2015, and the Group had been closely monitoring his financial position. Therefore, the Company believed that his balance of advance could be recoverable in the circumstances.

The audit committee had reviewed and agreed with the Directors' position on the qualification relating to the securities services business of the Group.

In respect of the securities services business, the major finding by the internal control consultant was that there was high concentration risk on the top 2 margin clients resulting in a higher credit risk and compliance risk of the FRR requirement.

The Group will adopt the recommendation from the internal control consultant to closely monitor the risk for the margin activities as there was a high concentration risk on the top 2 margin clients. In order to conduct reasonable assessment for each margin client, the Group's credit department is in the process of reviewing existing customers' trade and repayment history, re-assessing the credit line granted, and prepared to reduce the size of credit line that granted to each client. The Group proposes to lower the securities margin ratios to ensure that the margin loan amount to any margin client will not be higher than the adjusted market value of the pledged securities of such client after the haircut at the applicable ratio determined by the Group. The concentration risk has also been reduced as the largest customer has repaid part of the margin loan and has promised to continue to repay the outstanding amount in order to reduce his margin loan amount to a level below the adjusted market value of his pledged securities after the haircut at the applicable ratio.

Based on the communication with the new auditor of the Company, in future, impairment will be made when the debit amounts in clients' accounts are more than the market value of the securities (as adjusted by the applicable haircut ratio determined by the Group) in the margin accounts of the clients. The Company will consult the auditor before concluding the impairment assessment for final accounting treatment. After communication with the new auditor, the Company expects that there should be no disagreement with the auditor on the impairment assessment.

In view of the above, the Company expects that the audit qualification for the securities services business will be resolved for the year ending 31 March 2019.

GOING CONCERN

The auditor was unable to obtain sufficient information to support the going concern assumption were due to (i) the ongoing losses incurred by and the net liabilities of the Group; and (ii) the revolving loan facility of HK$100,000,000 provided by Mr. Cheng to the Group was not renewed at the time of issue of the auditor's report. The auditor's main concern was the significant shareholder and the related companies can change of their intention to continue provision of financial support to the Group.

The Directors are of the view that this audit qualification arouse from differences in judgment between the management and the auditor. The Directors are of the view that the financial statements of the Company should be prepared on a going concern basis due to, among others, (i) the Group's plan to source for new funding; (ii) the Group's continued effort to enhance costs controls in various operating expenses and to improve the Group's operating results and positive cash flow operation; (iii) the Group's continued effort to review credit policies and controls in order to ensure the recoverability of the loan receivables and advances for margin financing; (iv) the prospect of the businesses of the Group; and (v) the management of the Group's negotiations with a promissory note holder to postpone repayment and with the management of the companies in which Mr. Cheng has interest to defer the demand for repayment of loans until it is financially feasible for the Group to repay. The revolving loan facility provided by Mr. Cheng was also renewed to 18 July 2020.

The audit committee had reviewed and agreed with the Directors' position on this qualification.

In order to ensure the Company has sufficient working capital, the Company will commence negotiations with the controlling shareholders for the extension of the revolving loan facility provided and the repayment date of the promissory notes issued to the controlling shareholders at least three months before the financial year end date if the revolving loan facility will expire or the promissory notes will be due within 15 months after the financial year end date and such extension is necessary.

If the net liabilities position of the Group continues to exist as at 31 March 2019, it is expected that the audit qualification on material uncertainty related to going concern cannot be fully mitigated due to the net liabilities position of the Group. The Company is considering measures to reduce the operating costs of the equine services business to improve the profitability of the Group which may alleviate the net liability position of the Group. This may involve the sale of the bloodstocks and certain properties of the equine services business in order to reduce the recurring operating costs within this financial year. Further, the Company may also consider conducting equity fund raising exercise on terms and conditions in the interest of the Company and its shareholders as a whole, to improve the net liabilities position of the Group.

By Order of the Board
Sun International Group Limited
Cheng Ting Kong
Chairman

Hong Kong, 9 November 2018

As at the date of this announcement, the Board comprises three executive Directors, namely, Mr. Cheng Ting Kong, Ms. Cheng Mei Ching and Mr. Lui Man Wah and three independent nonexecutive Directors, namely, Mr. Chan Tin Lup, Trevor, Mr. Tou Kin Chuen and Mr. Jim Ka Shun.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the issuer. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

This announcement will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least 7 days from the date of posting and on the designed website of this Company at http://www.sun8029.com/.