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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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**If you are in any doubt** about this circular or as to the action to be taken, you should consult your licensed securities dealer or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in Sun International Group Limited (the “Company”), you should at once hand this circular with the enclosed forms of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase, or subscribe for the securities of the Company.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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**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)**

- (1) DISCLOSEABLE TRANSACTION, CONNECTED TRANSACTION AND SPECIAL DEAL UNDER THE DISPOSAL AGREEMENT**
- (2) MAJOR TRANSACTION, CONNECTED TRANSACTION AND SPECIAL DEAL UNDER THE SHARE SALE AGREEMENT**
- (3) CONTINUING CONNECTED TRANSACTION AND SPECIAL DEAL UNDER THE MASTER SERVICE AGREEMENT**
- (4) CONNECTED TRANSACTION RELATING TO SUBSCRIPTION OF SHARES UNDER SPECIFIC MANDATE**
- (5) APPLICATION FOR WHITEWASH WAIVER**

**Independent financial adviser to the Independent Board Committee  
and the Independent Shareholders**



Astrum Capital Management Limited

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Capitalised terms used in this cover page shall have the same meanings as those defined in this circular unless otherwise stated.

A letter from the Board is set out on pages 10 to 34 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 35 to 36 of this circular. A letter from Astrum Capital Management Limited containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 37 to 80 of this circular.

A notice convening the EGM to be held on Monday, 24 June 2019 at 10:30 a.m. at Units 2414-2418, 24/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong is set out on pages EGM-1 to EGM-4 of this circular. Whether or not you are able to attend the EGM, you are requested to complete and return the enclosed proxy forms in accordance with the instructions printed thereon to the office of the share registrar and transfer office of the Company, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof (as the case may be) should you so desire.

This circular will remain on the “Latest Company Announcements” page of the GEM website at [www.hkgem.com](http://www.hkgem.com) for at least seven (7) days from the date of its publication and is available for reference on the website of the Company at [www.sun8029.com](http://www.sun8029.com).

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## CHARACTERISTICS OF GEM

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GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions have the following meanings:*

“2017 Master Service Agreement”	the agreement dated 6 June 2017 and entered into between Sun Stud and Sun Bloodstock in relation to the provision of horse racing related services in accordance with the terms and conditions thereof
“acting in concert”	has the meaning ascribed thereto in the Takeovers Code
“Affiliate(s)”	any person(s), directly or indirectly, controlling, controlled by or under direct or indirect common control with another person
“Announcement”	the announcement of the Company dated 14 February 2019 in relation to the Disposal Agreement, the Subscription Agreement, the Share Sale Agreement, the Master Service Agreement, the transactions contemplated respectively thereunder, the Special Deals and the Whitewash Waiver
“associate(s)”	has the meaning ascribed to it in the GEM Listing Rules
“Board”	the board of Directors
“Borrower”	the borrower under the Loan Agreement, being an individual and an Independent Third Party
“Business Day”	a day (excluding Saturday, Sunday, public holiday and any day on which a tropical cyclone warning no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 5:00 p.m. and is not lowered at or before 5:00 p.m. or on which a “black” rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 5:00 p.m. and is not discontinued at or before 5:00 p.m.) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours or for the Share Sale Agreement, a day on which banks are open for business excluding Saturday, Sunday or public holiday in Victoria, Australia
“Chau’s Holdings”	Chau’s Holdings Company Limited, a company incorporated in the British Virgin Islands, the lender in the Chau’s Holdings Loan and the entire issued share capital of which is owned by Mr. Chau as at the Latest Practicable Date
“Chau’s Holdings Loan”	such advances provided by Chau’s Holdings to the Disposal Vendor from time to time since 31 August 2017 and in the principal amount of HK\$59,493,476.63 as at the Latest Practicable Date, including but not limited to interest free loan and dividend declared and not yet paid

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## DEFINITIONS

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“Cheng Family Investment Holdings”	Cheng Family Investment Holdings Company Limited, a company incorporated in British Virgin Islands, the lender in the Cheng Family Investment Holdings Loan and the entire issued share capital of which is owned by Mr. Cheng as at the Latest Practicable Date
“Cheng Family Investment Holdings Loan”	such advances provided by Cheng Family Investment Holdings to the Disposal Vendor from time to time since 31 August 2017 and in the principal amount of HK\$59,485,976.63 as at the Latest Practicable Date, including but not limited to interest free loan and dividend declared and not yet paid
“Company”	Sun International Group Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the GEM (Stock code: 8029)
“Concert Group”	the Subscriber and parties acting in concert with it
“connected person”	has the meaning ascribed to it in the GEM Listing Rules
“Consideration”	the total consideration to be satisfied by the Disposal Purchaser to the Disposal Vendor for the Disposal
“controlling shareholder”	has the meaning ascribed to it in the GEM Listing Rules
“Deed of Consideration Settlement”	the deed of consideration settlement in respect of the settlement of the Consideration and the Subscription Monies to be made among the Disposal Vendor, the Company, the Disposal Purchaser, Chau’s Holdings, Cheng Family Investment Holdings, the Subscriber and the PN Holders
“Deed of Extension and Waiver”	the deed of extension and waiver in respect of (i) the extension of the maturity date of the Promissory Note 2 and the Promissory Note 3 from 31 January 2021 to 31 January 2023; (ii) the waiver of the interest accrued and to be accrued on the Promissory Note 1 and the Promissory Note 4 from 1 January 2019 and up to the date of Subscription Completion; and (iii) the waiver of the interest accrued and to be accrued on the Promissory Note 2 and the Promissory Note 3 from 1 January 2019 to 31 January 2023 to be made among the Company and the PN Holders
“Deed of Set-off”	the deed of set-off in respect of, among others, the setting off of the Sun Kingdom Loan against part of the principal amount of the Promissory Note 2 to be made among the Target Company, the Share Sale Purchaser, the Company, Cheng Family Investment Holdings and the PN Holder 2
“Director(s)”	the director(s) of the Company

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## DEFINITIONS

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“Disposal”	the proposed disposal of the Sale Interest by the Disposal Vendor pursuant to the terms of the Disposal Agreement
“Disposal Agreement”	the agreement dated 14 February 2019 (as amended and supplemented by an extension letter dated 28 March 2019 and as amended and restated by an amended and restated disposal agreement dated 24 May 2019) and entered into between the Disposal Vendor and the Disposal Purchaser in relation to the sale and purchase of the Sale Interest
“Disposal Completion”	completion of the Disposal in accordance with the terms and conditions of the Disposal Agreement
“Disposal Purchaser”	Imperium Credit Limited, a licensed money lender in Hong Kong, the purchaser of the Disposal Agreement and the issued share capital of which is ultimately wholly owned by Mr. Cheng
“Disposal Vendor”	Sun Finance Company Limited, a licensed money lender in Hong Kong, the vendor of the Disposal Agreement and a wholly-owned subsidiary of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held at Units 2414-2418, 24/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong at 10:30 a.m. on Monday, 24 June 2019 for the Independent Shareholders to consider and, if thought fit, approve, among others, the Subscription Agreement, the Disposal Agreement, the Share Sale Agreement, the Master Service Agreement and the transactions contemplated respectively thereunder, the Special Deals and the Whitewash Waiver
“Executive”	the Executive Director of the Corporate Finance Division of the SFC and any delegate for the time being of the Executive Director
“Extension Letters”	has the meaning ascribed to it under the paragraph headed “Extension of the Promissory Note 1” in the section headed “The Subscription Agreement” of this circular
“GEM”	the GEM operated by the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China

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## DEFINITIONS

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“Independent Board Committee”	the independent committee of the Board comprising all the independent non-executive Directors formed to advise the Independent Shareholders in relation to the Disposal, the Share Sale, the Master Service Agreement, the Subscription, the transactions contemplated respectively thereunder, the Special Deals and the Whitewash Waiver
“Independent Financial Adviser” or “Astrum Capital”	Astrum Capital Management Limited, a licensed corporation permitted to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, being the independent financial adviser appointed by the Company after approval by the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders in relation to the Disposal, the Share Sale, the Master Service Agreement, the Subscription, the transactions contemplated respectively thereunder, the Special Deals and the Whitewash Waiver
“Independent Shareholders”	the shareholder(s) of the Company, to the extent applicable in respect of each resolution, who are not members of the Concert Group and not involved or interested in (other than solely as a Shareholder) the transactions contemplated under the Disposal Agreement, the Share Sale Agreement, the Master Service Agreement and the Subscription Agreement including the Disposal, the Share Sale, the provision of the Services under the Master Service Agreement, the Subscription, the Special Deals and/or the Whitewash Waiver and are not required to abstain from voting under the GEM Listing Rules and/or the Takeovers Code and therefore permitted to vote in respect of the resolution(s) to approve the Disposal, the Share Sale, the Master Service Agreement, the Subscription, the Special Deals and the Whitewash Waiver at the EGM
“Last Trading Day”	14 February 2019, being the last day on which the Shares were traded on the Stock Exchange prior to the release of the Announcement
“Latest Practicable Date”	4 June 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Litigation”	the litigation commenced by the Disposal Vendor against the Borrower for, among other things, the Sale Loan, further details of which are disclosed in the announcement of the Company dated 13 August 2018
“Loan Agreement”	the loan agreement dated 8 June 2017 and entered into between the Disposal Vendor and the Borrower in relation to the provision of the loan facility of HK\$30,000,000 by the Disposal Vendor to the Borrower for a fixed term of six (6) months from the date of drawdown, with six (6) months renewable can be allowed with the consent of the Disposal Vendor, at an interest rate of 28% per annum

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## DEFINITIONS

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“Master Service Agreement”	the master service agreement to be entered into between Sun Stud as the service provider and the Target Company as the customer in relation to the provision of the Services for a term commencing from the Share Sale Completion Date and ending on 31 March 2022
“Mr. Chau”	Mr. Chau Cheok Wa, a controlling shareholder of the Company
“Mr. Cheng”	Mr. Cheng Ting Kong, the chairman, an executive Director and a controlling shareholder of the Company
“Outstanding Options”	198,492,924 outstanding options entitled the holder thereof to subscribe for one Share at the relevant exercise price
“PN Holder 1”	Sun International Financial Group Limited, being the owner of the Promissory Note 1 and an associate of the Subscriber, the entire issued share capital of which is beneficially owned as to 50% by Ms. Yeung So Mui (being the spouse of Mr. Cheng) and as to 50% by Mr. Chau
“PN Holder 2”	Eminent Crest Holdings Limited, being the owner of the Promissory Note 2 and an associate of the Subscriber, the entire issued share capital of which is wholly-owned by Mr. Cheng
“PN Holder 3”	Peak Stand Holdings Limited, being the owner of the Promissory Note 3 and an associate of the Subscriber, the entire issued share capital of which is wholly-owned by Mr. Cheng
“PN Holder 4”	Sheen Light Holdings Limited, being the owner of the Promissory Note 4 and an associate of the Subscriber, the entire issued share capital of which is wholly-owned by Mr. Cheng
“PN Holder(s)”	together, the PN Holder 1, the PN Holder 2, the PN Holder 3 and the PN Holder 4, and where the context requires, can mean either one of them
“Promissory Note 1”	the three-year 2% coupon promissory note issued by the Company to the PN Holder 1 on 29 February 2016 in the principal amount of HK\$128,695,259
“Promissory Note 2”	the three-year 7% coupon promissory note issued by the Company to the PN Holder 2 on 31 January 2018 in the principal amount of HK\$143,640,000
“Promissory Note 3”	the three-year 7% coupon promissory note issued by the Company to PN Holder 3 on 31 January 2018 in the principal amount of HK\$219,240,000



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## DEFINITIONS

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“Promissory Note 4”	the three-year 7% coupon promissory note issued by the Company to the PN Holder 4 on 31 January 2018 in the principal amount of HK\$15,120,000
“Promissory Note(s)”	together, the Promissory Note 1, the Promissory Note 2, the Promissory Note 3 and the Promissory Note 4, and where the context requires, can mean either one of them
“Purchase Price”	has the meaning ascribed to it under the paragraph headed “Purchase Price” in the section headed “The Share Sale Agreement” of this circular
“Relevant Period”	the period commencing on the date falling six months immediately preceding the Announcement and ending on the Latest Practicable Date
“Sale Interest”	all the rights, title, benefits and interests of the Disposal Vendor to, in and under the Loan Agreement (including but not limited to the Sale Loan and all the security created thereunder) and the Litigation upon the terms and conditions set out in the Disposal Agreement
“Sale Loan”	all loans, obligations, liabilities and debts owing or incurred by the Borrower to the Disposal Vendor from time to time under the Loan Agreement including but not limited to the outstanding principal of HK\$30,000,000 and the outstanding interest accrued thereon which was HK\$1,998,318 as at 2 August 2018
“Sale Shares”	100 issued shares of the Target Company, being the entire issued share capital of the Target Company
“Services”	horse racing related services including but not limited to breeding, rearing, sales, agistment, spelling, education, administration, advice and training of horses to be provided by Sun Stud or any member of the Sun Stud Group to the Target Company or its Affiliates and/or such other services as shall be agreed by the parties to the Master Service Agreement in writing from time to time
“SFC”	The Securities and Futures Commission of Hong Kong
“SFO”	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shares”	ordinary share(s) of HK\$0.04 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares

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## DEFINITIONS

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“Share Sale”	the proposed disposal of the Sale Shares by the Share Sale Vendor to the Share Sale Purchaser pursuant to the terms of the Share Sale Agreement
“Share Sale Agreement”	the share sale agreement dated 14 February 2019 (as amended and supplemented by an deed of amendment dated 28 March 2019) and entered into among the Share Sale Purchaser, the Share Sale Vendor and the Target Company in relation to the sale and purchase of the Sale Shares
“Share Sale Completion”	completion of the Share Sale in accordance with the terms and conditions of the Share Sale Agreement
“Share Sale Completion Date”	the date on which Share Sale Completion takes place
“Share Sale Purchaser”	Prestige Summit Investments Limited, a company incorporated in the British Virgin Islands with limited liability and the purchaser of the Share Sale Agreement, the issued share capital of which is ultimately wholly-owned by Mr. Cheng
“Share Sale Vendor”	Sun Macro Limited, a company incorporated in the British Virgin Islands with limited liability, the vendor of the Share Sale Agreement, and a wholly-owned subsidiary of the Company
“Special Deal (Disposal)”	the Disposal Agreement and the transactions contemplated thereunder
“Special Deal (Master Service Agreement)”	the Master Service Agreement and the transactions contemplated thereunder
“Special Deal (Share Sale)”	the Share Sale Agreement and the transactions contemplated thereunder
“Special Deals”	together, the Special Deal (Disposal), the Special Deal (Master Service Agreement) and the Special Deal (Share Sale), and where the context requires, can mean either one of them
“Specific Mandate”	a specific mandate to be granted to the Board in relation to the allotment and issue of the Subscription Shares to be approved by the Independent Shareholders at the EGM
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	First Cheer Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, the subscriber of the Subscription Agreement and interested in approximately 47.05% of the issued share capital of the Company as at the Latest Practicable Date, the entire issued share capital of which is beneficially owned as to 50% by Mr. Cheng and as to 50% by Mr. Chau

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## DEFINITIONS

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“Subscription”	the subscription by the Subscriber for and the allotment and issue by the Company of, the Subscription Shares under the terms and subject to the conditions of the Subscription Agreement
“Subscription Agreement”	the agreement dated 14 February 2019 (as amended and supplemented by an extension letter dated 28 March 2019 and as amended and restated by an amended and restated subscription agreement dated 24 May 2019) and entered into between the Company and the Subscriber in relation to the Subscription
“Subscription Completion”	completion of the Subscription in accordance with the terms and conditions of the Subscription Agreement
“Subscription Monies”	has the meaning ascribed to it under the paragraph headed “Subscription Monies” in the section headed “The Subscription Agreement” of this circular
“Subscription Price”	subscription price of HK\$0.345 per Subscription Share
“Subscription Shares”	a total of 780,332,000 Shares, for which the Subscriber will subscribe and the Company will allot and issue under the Subscription upon the terms and subject to the conditions of the Subscription Agreement
“Sun Bloodstock”	Sun Bloodstock Pty Limited, a company incorporated in Australia with limited liability and is ultimately wholly-owned by Mr. Cheng
“Sun Finance Loan”	together, the Cheng Family Investment Holdings Loan and the Chau’s Holdings Loan, and where the context requires, can mean either one of them
“Sun Kingdom Loan”	an interest free loan owing or incurred by the Target Company to the Company in the principal amount of AUD14,440,995.06 (equivalent to approximately HK\$81,447,212.13)
“Sun Stud”	Sun Stud Pty Limited (formerly known as Eliza Park International Pty Limited), a company incorporated in Australia with limited liability and a wholly-owned subsidiary of the Company
“Sun Stud Group”	Sun Stud and its subsidiaries
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Target Company”	Sun Kingdom Pty Ltd, a company incorporated in Australia with limited liability and a wholly-owned subsidiary of the Company as at the Latest Practicable Date

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## DEFINITIONS

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“Whitewash Waiver”	the whitewash waiver as may be granted by the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code of the obligations on the Subscriber to make a mandatory general offer for all the issued shares of the Company and the Outstanding Options other than those already owned or agreed to be acquired by the Subscriber and parties acting in concert with it as a result of the Company allotting and issuing 780,332,000 Subscription Shares pursuant to the Subscription Agreement
“AUD”	Australian dollar, the lawful currency of Australia
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

*In this circular, the HK\$ amounts have been converted from AUD amounts at the rate of AUD1.00 to HK\$5.64. Such conversions are for the convenience of the readers only. No representation is made that the AUD amounts have been, could have been or could be, converted into HK\$, or vice versa, at such rate or at any other rates on any relevant dates.*

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LETTER FROM THE BOARD

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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)**

*Executive Directors:*

Mr. Cheng Ting Kong (*Chairman*)  
Ms. Cheng Mei Ching  
Mr. Lui Man Wah

*Independent non-executive Directors:*

Mr. Chan Tin Lup, Trevor  
Mr. Tou Kin Chuen  
Mr. Jim Ka Shun

*Registered Office:*

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

*Principal Place of Business in Hong Kong:*

Units 2414–2418, 24/F.  
China Merchants Tower  
Shun Tak Centre  
168–200 Connaught Road Central  
Hong Kong

6 June 2019

*To the Shareholders*

Dear Sir or Madam,

- (1) DISCLOSEABLE TRANSACTION, CONNECTED TRANSACTION AND SPECIAL DEAL UNDER THE DISPOSAL AGREEMENT**  
**(2) MAJOR TRANSACTION, CONNECTED TRANSACTION AND SPECIAL DEAL UNDER THE SHARE SALE AGREEMENT**  
**(3) CONTINUING CONNECTED TRANSACTION AND SPECIAL DEAL UNDER THE MASTER SERVICE AGREEMENT**  
**(4) CONNECTED TRANSACTION RELATING TO SUBSCRIPTION OF SHARES UNDER SPECIFIC MANDATE**  
**(5) APPLICATION FOR WHITEWASH WAIVER**

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## LETTER FROM THE BOARD

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### INTRODUCTION

Reference is made to the Announcement.

On 14 February 2019, the Disposal Vendor, being a wholly-owned subsidiary of the Company, entered into the Disposal Agreement with the Disposal Purchaser, pursuant to which the Disposal Vendor has conditionally agreed to sell the Sale Interest and the Disposal Purchaser has conditionally agreed to acquire the Sale Interest at the Consideration of HK\$31,998,318. Pursuant to the Disposal Agreement, the Consideration shall be set off against part of the principal amount of the Promissory Note 4 and the outstanding interest accrued up to 31 December 2018 of the Promissory Note 2, the Promissory Note 3 and the Promissory Note 4 in the amount of HK\$31,998,318, which is equivalent to the outstanding amount of the Sale Loan and the outstanding interest accrued thereon as at 2 August 2018.

On 14 February 2019, the Share Sale Vendor, being a wholly-owned subsidiary of the Company, entered into the Share Sale Agreement with the Share Sale Purchaser, pursuant to which the Share Sale Vendor has conditionally agreed to sell the Sale Shares and the Share Sale Purchaser has conditionally agreed to acquire the Sale Shares at the Purchase Price.

Following Share Sale Completion, the Target Company, the Share Sale Purchaser, the Company, Cheng Family Investment Holdings and the PN Holder 2 shall enter into the Deed of Set-off, pursuant to which, among others, the whole amount of the Sun Kingdom Loan owed by the Target Company to the Company shall be set off against part of the principal amount of the Promissory Note 2 in the amount of HK\$81,447,212.13 (equivalent to approximately AUD14,440,995.06, being the amount of the Sun Kingdom Loan).

According to the terms of the Share Sale Agreement, upon Share Sale Completion, Sun Stud, being a wholly-owned subsidiary of the Company, and the Target Company will enter into the Master Service Agreement, pursuant to which the Sun Stud Group will agree to provide the Services to the Target Company and/or its Affiliates (including but not limited to Sun Bloodstock). It is expected that upon Share Sale Completion, all the horse racing related services will be provided by Sun Stud Group to the Target Company and/or its Affiliates (including but not limited to Sun Bloodstock) under the Master Service Agreement.

On 14 February 2019, the Company and the Subscriber entered into the Subscription Agreement, pursuant to which the Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue a total of 868,434,000 Shares, being the original number of the subscription shares at the original subscription price of HK\$0.31 per subscription share. Pursuant to the Subscription Agreement, the Subscription Monies shall be set off against (i) the entire principal amount of the Sun Finance Loan; (ii) the outstanding interest accrued up to 31 December 2018 of the Promissory Note 1; and (iii) the relevant principal amount of the Promissory Note 1, the Promissory Note 2 and the Promissory Note 4, in an aggregate amount equivalent to the Subscription Monies upon Subscription Completion.

Reference is also made to the announcement of the Company dated 28 March 2019.

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## LETTER FROM THE BOARD

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On 28 March 2019, the Disposal Vendor and the Disposal Purchaser entered into an extension letter to the Disposal Agreement to extend the long stop date of the Disposal Agreement to 30 June 2019, or such later date as the Disposal Vendor and the Disposal Purchaser may agree in writing.

On 28 March 2019, the Share Sale Vendor and the Share Sale Purchaser entered into an deed of amendment to the Share Sale Agreement to amend the terms of the Master Service Agreement to be entered into such that, (i) the term of the Master Service Agreement shall commence on Share Sale Completion Date and end on 31 March 2022 (both days inclusive); and (ii) the proposed annual caps for the three years ending 31 March 2020, 31 March 2021 and 31 March 2022 shall be AUD3,000,000 (equivalent to approximately HK\$16,920,000), AUD3,100,000 (equivalent to approximately HK\$17,484,000) and AUD3,200,000 (equivalent to approximately HK\$18,048,000) respectively.

On 28 March 2019, the Company and the Subscriber entered into an extension letter to the Subscription Agreement to extend the long stop date of the Subscription Agreement to 30 June 2019, or such later date as the Company and the Subscriber may agree in writing.

On 28 March 2019, the PN Holder 1 executed the second extension letter, pursuant to which the maturity date of the Promissory Note 1 has been further extended from 31 March 2019 to 30 June 2019.

Reference is also made to the announcement of the Company dated 24 May 2019.

In light of the recent trading price of the Shares and upon negotiation between the Subscriber and the Company, on 24 May 2019, the Subscriber and the Company entered into an amended and restated subscription agreement (the “**Amended and Restated Subscription Agreement**”) to amend and restate the Subscription Agreement, pursuant to which (i) the amount of the subscription price shall be increased from HK\$0.31 per subscription share to HK\$0.345 per subscription share; and (ii) the number of the subscription shares shall be decreased from 868,434,000 Shares to 780,332,000 Shares.

On 24 May 2019, the Disposal Vendor and the Disposal Purchaser also entered into the amended and restated disposal agreement (the “**Amended and Restated Disposal Agreement**”) to amend and restate the Disposal Agreement, in order to reflect the amendments made in the Amended and Restated Subscription Agreement, in particular, the changes in the amount of the Subscription Price and the number of the Subscription Shares.

The purposes of this circular are to provide you with, among other things, (i) details of the Disposal Agreement; (ii) details of the Share Sale Agreement; (iii) details of the Master Service Agreement; (iv) details of the Subscription Agreement; (v) the recommendation of the Independent Board Committee to the Independent Shareholders in relation to the Disposal, the Share Sale Agreement, the Master Service Agreement, the Subscription, the Special Deals and the Whitewash Waiver; (vi) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Disposal, the Share Sale, the Master Service Agreement, the Subscription, the Special Deals and the Whitewash Waiver; and (vii) a notice of the EGM.

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## LETTER FROM THE BOARD

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### THE DISPOSAL AGREEMENT

The principal terms of the Disposal Agreement are set out below:

- Date:** 14 February 2019 (as amended and supplemented by an extension letter dated 28 March 2019 and as amended and restated by the Amended and Restated Disposal Agreement dated 24 May 2019)
- Parties:** (a) Sun Finance Company Limited, as the Disposal Vendor; and
- (b) Imperium Credit Limited, as the Disposal Purchaser

The Disposal Vendor is a money lender licensed in Hong Kong and a wholly-owned subsidiary of the Company.

The Disposal Purchaser is a money lender licensed in Hong Kong and is ultimately wholly-owned by Mr. Cheng, the chairman, an executive Director and a controlling shareholder of the Company.

### Assets to be disposed of

Pursuant to the Disposal Agreement, the Disposal Vendor has conditionally agreed to sell the Sale Interest and the Disposal Purchaser has conditionally agreed to acquire the Sale Interest.

The Sale Interest represents all the rights, title, benefits and interests of the Disposal Vendor to, in and under (i) the Loan Agreement (including but not limited to the Sale Loan and all the security created thereunder); and (ii) the Litigation.

The security created under the Loan Agreement is an equitable mortgage over all monies, deposit(s), equity(ies) or any other assets under a securities trading account maintained with Sun International Securities Limited under the name of the Borrower. As at the Latest Practicable Date, the only asset in the securities account is 25,600,000 shares of a company ("**Charged Company**"), the issued shares of which are listed on the main board of the Stock Exchange. Based on the public announcements issued by the Charged Company, (i) trading of the shares of the Charged Company on the Stock Exchange has been halted with effect from July 2018; (ii) the Charged Company is put in provisional liquidation in August 2018 and joint provisional liquidators have been appointed.

As disclosed in the announcement of the Company dated 13 August 2018, the Disposal Vendor has commenced the Litigation by issuing a writ of summons against the Borrower for, among other things, the Sale Loan (including but not limited to the outstanding principal amount of HK\$30,000,000 and the outstanding interest accrued thereon of HK\$1,998,318 as at 2 August 2018, being the interest reference date referred to in the writ of summons commencing the Litigation).

As at the date of the Disposal Agreement, the book value of the Sale Loan amounted to HK\$32,145,989, being the outstanding principal amount of the Sale Loan and the outstanding interest accrued thereon up to 9 August 2018, being the date immediately prior to the issue of the writ of summons commencing the Litigation.



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## LETTER FROM THE BOARD

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Further monthly interest payments accruing at contractual interest rate of 36% per annum on the outstanding principal amount of HK\$30,000,000 and the outstanding interest accrued thereon (which was HK\$1,998,318 as at 2 August 2018) from 3 August 2018 and until payment (the “**Foregone Interest**”) was excluded in the book value of the Sale Loan after having considered the following factors:–

- (i) the ability of the Borrower to repay the loan and the outstanding interest accrued under the Loan Agreement is in doubt, and in fact, the Borrower failed to make monthly interest payment since June 2018 and did not response to the demand for repayment from the Disposal Vendor;
- (ii) after having received an indication from the Borrower of his inability to repay the loan and the outstanding interest accrued under the Loan Agreement, the Disposal Vendor commenced the Litigation against the Borrower for, among other things, the Sale Loan, on 10 August 2019; and
- (iii) in light of the events set out in paragraphs (i) and (ii) above, the Group considers that the possibility to recover the full amount of the outstanding principal amount of the Sale Loan and the outstanding interest accrued thereon up to 9 August 2018 is remote.

### Consideration

The Consideration for the sale and purchase of the Sale Interest is HK\$31,998,318, which is equivalent to the outstanding principal amount of the Sale Loan and the outstanding interest accrued thereon as at 2 August 2018.

At Disposal Completion, the Disposal Vendor, the Disposal Purchaser, the Company, Chau’s Holdings, Cheng Family Investment Holdings, the Subscriber and the PN Holders shall enter into the Deed of Consideration Settlement, pursuant to which, among others, the whole amount of the Consideration payable by the Disposal Purchaser shall be set off against part of the principal amount of the Promissory Note 4 in the amount of HK\$7,977,386.44, the outstanding interest accrued up to 31 December 2018 of the Promissory Note 2 in the amount of HK\$9,127,954, the outstanding interest accrued up to 31 December 2018 of the Promissory Note 3 in the amount of HK\$13,932,140.28 and the outstanding interest accrued up to 31 December 2018 of the Promissory Note 4 in the amount of HK\$960,837.28.

The amount of the Consideration, which is equivalent to the outstanding principal of HK\$30,000,000 and the outstanding interest accrued thereon of HK\$1,998,318 as at 2 August 2018 but without taking into account the Foregone Interest, was arrived at after arm’s length negotiations between the Disposal Purchaser and the Disposal Vendor having considered the following factors: (i) since June 2018, the Borrower failed to make monthly interest payment and did not response to the demand for repayment from the Disposal Vendor; (ii) the indication from the Borrower of his inability to repay the loan and the outstanding interest accrued under the Loan Agreement; (iii) notwithstanding the commencement of the Litigation on 10 August 2018, the Borrower has not repaid the outstanding amount under the Loan Agreement to the Disposal Vendor as at the date of the Announcement; (iv) the considerable amount of time and financial resources required to proceed with the Litigation and the uncertainties involved in the outcome of the Litigation; (v) the ability of the Borrower to repay the loan and the outstanding interest accrued under the Loan Agreement is in doubt; (vi) in light of the aforementioned factors, the possibility

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to recover the full amount of the loan and the outstanding interest accrued under the Loan Agreement is remote; and (vii) the amount of interest accrued or to be accrued on the Promissory Notes which is agreed to be waived.

### **Conditions precedent**

Disposal Completion shall be subject to the following conditions being satisfied (or waived, if applicable):

- (a) the passing by the Independent Shareholders at the EGM of all necessary resolution(s) to approve the Disposal Agreement and the transactions contemplated thereunder and the Special Deal (Disposal) and all other consents and acts required under the GEM Listing Rules having been obtained and completed or, as the case may be, the relevant waiver from compliance with any of such rules having been obtained from the Stock Exchange;
- (b) the consent of the Executive in relation to the Disposal Agreement and the transactions contemplated thereunder as a “special deal” under Rule 25 of the Takeovers Code having been obtained and not revoked prior to Disposal Completion;
- (c) all the warranties provided by the Disposal Vendor under the Disposal Agreement remaining true and correct in all respects and not misleading;
- (d) all the warranties provided by the Disposal Purchaser under the Disposal Agreement remaining true and correct in all respects and not misleading; and
- (e) the Subscription Agreement having become unconditional in all respects in accordance with its terms (save for the condition that the Disposal Agreement having become unconditional).

The Disposal Purchaser may at its absolute discretion at any time waive in writing condition (c) set out above. The Disposal Vendor may at its absolute discretion at any time waive in writing condition (d) set out above. Neither the Disposal Purchaser nor the Disposal Vendor may waive the conditions (a), (b) and (e) set out above. If the conditions set out above have not been satisfied (or as the case may be, waived by the Disposal Purchaser or the Disposal Vendor) on or before 5:00 p.m. on 30 June 2019, or such later date as the Disposal Vendor and the Disposal Purchaser may agree in writing, the Disposal Agreement shall cease and determine and neither party shall have any obligations and liabilities towards each other thereunder save for any antecedent breaches of the terms thereof.

Notwithstanding that the Disposal Agreement and the Subscription Agreement are inter-conditional on each other and Disposal Completion shall take place contemporaneously with Subscription Completion, the Disposal Agreement and the Subscription Agreement shall be approved by the Independent Shareholders at the EGM by separate resolutions. The aforementioned arrangement is intended to allow the Independent Shareholders to vote for the resolution approving the Disposal Agreement but to vote against the resolution approving the Subscription Agreement, or vice versa.

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### Disposal Completion

Disposal Completion shall take place contemporaneously with Subscription Completion at 5:00 p.m. within ten (10) Business Days after the fulfillment or waiver (as the case may be) of the conditions set out above (or such other date as shall be agreed in writing between the parties to the Disposal Agreement).

Upon Disposal Completion, the Company will cease to pursue the Litigation and the Disposal Purchaser may make an application to the High Court of Hong Kong to substitute the Disposal Vendor as the plaintiff in the Litigation.

### Financial effect of the Disposal

Based on, among other things, the Consideration and the related expenses relating to the Disposal, a loss of HK\$157,671 is expected to be recorded for the Disposal, which is based on the difference between (i) the Consideration; and (ii) the book value of the Sale Loan and the amount of the related expenses. The amount is subject to review and confirmation by the Company's auditors. In the event that the Forgone Interest is included in the book value of the Sale Loan, a loss of HK\$5,957,123 is expected to be recorded for the Disposal.

The aforesaid estimation is for illustrative purpose only and does not purport to represent how the financial position of the Group will be after Disposal Completion.

As the Consideration payable by the Disposal Purchaser will be set off against part of the principal amount of the Promissory Note 4 and the outstanding interest accrued up to 31 December 2018 of the Promissory Note 2, the Promissory Note 3 and the Promissory Note 4, there will be no gross proceeds or net proceeds from the Disposal.

### THE SHARE SALE AGREEMENT

The principal terms of the Share Sale Agreement are set out below:

- Date:** 14 February 2019 (as amended and supplemented by an deed of amendment dated 28 March 2019)
- Parties:**
- (a) Sun Macro Limited, as the Share Sale Vendor;
  - (b) Prestige Summit Investments Limited, as the Share Sale Purchaser; and
  - (c) Sun Kingdom Pty Ltd, as the Target Company

The Share Sale Vendor is a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company.

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## LETTER FROM THE BOARD

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The Share Sale Purchaser is a company incorporated in the British Virgin Islands with limited liability and is principally engaged in investment holding, the entire issued share capital of which is ultimately owned by Mr. Cheng, the chairman, an executive Director and a controlling shareholder of the Company.

The Target Company is a company incorporated in Australia with limited liability and a wholly-owned subsidiary of the Company.

### **Assets to be disposed of**

Pursuant to the Share Sale Agreement, the Share Sale Vendor has conditionally agreed to sell the Sale Shares and the Share Sale Purchaser has conditionally agreed to acquire the Sale Shares.

The Sale Shares represent the entire issued share capital of the Target Company.

### **Purchase Price**

The Share Sale Purchaser shall pay AUD1 at Share Sale Completion for the sale and purchase of the Sale Shares to the Share Sale Vendor as the completion payment. As soon as practicable following Share Sale Completion, a balance sheet of the Target Company (the “**Completion Balance Sheet**”) as at Share Sale Completion will be prepared. The actual purchase price (the “**Purchase Price**”) will be determined as follows:

- (a) if the net asset position of the Target Company as shown in the Completion Balance Sheet is a positive number, the Purchase Price for the Sale Shares will be an amount equal to the positive net asset position of the Target Company as shown in the Completion Balance Sheet and the difference between the Purchase Price and AUD1 paid shall be payable by the Share Sale Purchaser to the Share Sale Vendor within ten (10) Business Days after the Purchase Price is determined; or
- (b) if the net asset position of the Target Company as shown in the Completion Balance Sheet is zero or a negative number, the Purchase Price for the Sale Shares will be fixed at AUD1.

As at 31 December 2018, the Target Company has unaudited net liabilities of AUD1,009,031 (equivalent to approximately HK\$5,690,935). It is expected that the net liability position of the Target Company will continue as at Share Sale Completion and the Purchase Price will be AUD1.

As at the Latest Practicable Date, the Target Company is indebted to the Company in the amount of AUD14,440,995.06 (equivalent to approximately HK\$81,447,212.13), being the Sun Kingdom Loan.

Following Share Sale Completion, the Target Company, the Share Sale Purchaser, the Company, Cheng Family Investment Holdings and the PN Holder 2 shall enter into the Deed of Set-off, pursuant to which, among others, the whole amount of the Sun Kingdom Loan owed by the Target Company to the Company shall be set off against part of the principal amount of the Promissory Note 2 in the amount of HK\$81,447,212.13 (equivalent to approximately AUD14,440,995.06, being the amount of the Sun Kingdom Loan).

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## LETTER FROM THE BOARD

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The amount of the Purchase Price was arrived at after arm's length negotiations between the Share Sale Purchaser and the Share Sale Vendor having considered that (i) the unaudited net liabilities of the Target Company were approximately AUD1,009,031 (equivalent to approximately HK\$5,690,935) as at 31 December 2018 and the net liability position of the Target Company is expected to continue at Share Sale Completion; (ii) the whole amount of the Sun Kingdom Loan will be set off against part of the principal amount of the Promissory Note 2 in the amount of HK\$81,447,212.13; (iii) the audited net loss of the Target Company of approximately AUD5,504,683 (equivalent to approximately HK\$31,046,000) for the year ended 31 March 2017 and approximately AUD2,478,392 (equivalent to approximately HK\$13,978,000) for the year ended 31 March 2018; (iv) the Group is not optimistic on the future prospects of Sun Kingdom and its operation has been scaled down; and (v) the Share Sale would reduce the operation costs and working capital burden of the Group.

### Conditions precedent

Share Sale Completion shall be subject to the following conditions being satisfied (or waived, if applicable):

- (a) the passing by the Independent Shareholders at the EGM of all necessary resolution(s) to approve each of (i) the Share Sale Agreement and the transactions contemplated thereunder; (ii) the Special Deal (Share Sale); (iii) the Master Service Agreement and the transactions contemplated thereunder; and (iv) the Special Deal (Master Service Agreement) and all other consents and acts required under the GEM Listing Rules having been obtained and completed or, as the case may be, the relevant waiver from compliance with any of such rules having been obtained from the Stock Exchange; and
- (b) the consent of the Executive in relation to each of (i) the Share Sale Agreement and the transactions contemplated thereunder, and (ii) the Master Service Agreement and the transactions contemplated thereunder, as "special deal" under Rule 25 of the Takeovers Code having been obtained and not revoked prior to Share Sale Completion.

Neither the Share Sale Purchaser nor the Share Sale Vendor may waive the conditions set out above. The Share Sale Vendor may terminate the Share Sale Agreement by notice in writing to the Share Sale Purchaser if the conditions set out above are not satisfied, or cannot be satisfied, on or before 30 June 2019.

### Share Sale Completion

Share Sale Completion shall take place within five (5) Business Days after the satisfaction of the conditions set out above.

Upon Share Sale Completion, the Target Company will cease to be a subsidiary of the Company and its financial results will no longer be consolidated into the Company's consolidated financial statements.

For the avoidance of doubt, the Share Sale Completion is not conditional upon the Whitewash Waiver being granted by the Executive or Disposal Completion and Subscription Completion.

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## LETTER FROM THE BOARD

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### **Financial effect of the Share Sale on earnings, assets and liabilities**

Based on, among other things, the Purchase Price and the related expenses relating to the Share Sale, it is expected that (i) the Group will not realise a gain or loss in the statement of profit or loss and other comprehensive income as a result of the Share Sale; and (ii) the net assets of the Company will be increased by approximately HK\$5.7 million. As the Share Sale Purchaser is the controlling shareholder of the Company and the Purchase Price was negotiated with premium over the fair value of the assets and liabilities to be disposed of, the expected gain from the Share Sale in the estimated amount of HK\$5.7 million, which is arrived at after taking into consideration the expected Purchase Price in the amount of AUD1 (equivalent to approximately HK\$5.64) and the unaudited net liabilities of the Target Company as at 31 December 2018 in the amount of approximately AUD1,009,031 (equivalent to approximately HK\$5,690,935), will be directly recognised in the equity as deemed shareholder's contribution. The final amount of the gain is subject to Share Sale Completion and finalisation of the audit on the Share Sale.

The aforesaid estimation is for illustrative purpose only and does not purport to represent how the financial position of the Group will be after Share Sale Completion.

There will be no net proceeds from the Share Sale after deducting the related expenses.

### **Information on the Target Company**

The Target Company is a company incorporated in Australia with limited liability, and is an indirect wholly-owned subsidiary of the Company immediately prior to Share Sale Completion. The Target Company is principally engaged in the provision of equine services including pre-training and trading of thoroughbred horses in Australia. The principal assets of the Target Company is the bloodstocks located in Australia as at the Latest Practicable Date. As at the Latest Practicable Date, save for Sun Stud, none of members of the Group (excluding the Target Company) is engaged in the provision of equine services. Following Share Sale Disposal, the following assets in relation to equine services business will remain in the Group (excluding the Target Company):- (i) a piece and parcel of land with a site area of 425.2 acres located at 56 and 146 Mt Eliza Road, Riddells Creek, Victoria, Australia, including all improvements and fixtures; (ii) the plant and equipment; (iii) the interests in 11 stallions; (iv) the permits and licences; (v) the inventory; and (vi) the leases on 2 leased properties. After Share Sale Disposal, the Group (through Sun Stud, a wholly-owned subsidiary of the Company) will continue to engaged in the provision of horse racing related services, including but not limited to breeding, rearing, sales, agistment, spelling, education, administration and advice of horses.

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## LETTER FROM THE BOARD

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The following table summarises the audited financial results of the Target Company (prepared in accordance with Australian Accounting Standards and Accounting Interpretation) for (i) the financial year ended 31 March 2017; and (ii) the financial year ended 31 March 2018 respectively.

	For the year ended	
	31 March	
	2017	2018
	(AUD)	(AUD)
	(audited)	(audited)
Revenue and other income	6,064,111	12,588,349
Profit (loss) before taxation	(5,504,683)	(2,478,392)
Profit (loss) after taxation	(5,504,683)	(2,478,392)

As at 31 December 2018, the unaudited net liabilities of the Target Company were approximately AUD1,009,031 (equivalent to approximately HK\$5,690,935).

### THE MASTER SERVICE AGREEMENT

Reference is made to the announcement of the Company dated 6 June 2017 in relation to the 2017 Master Service Agreement.

According to the terms of the Share Sale Agreement, upon Share Sale Completion, Sun Stud, being a wholly-owned subsidiary of the Company, and the Target Company will enter into the Master Service Agreement, pursuant to which the Sun Stud Group will agree to provide the Services to the Target Company and/or its Affiliates (including but not limited to Sun Bloodstock) for a term commencing from the Share Sale Completion Date and ending on 31 March 2022 (both days inclusive). It is expected that upon Share Sale Completion, all the horse racing related services will be provided by Sun Stud Group to the Target Company and/or its Affiliates (including but not limited to Sun Bloodstock) under the Master Service Agreement.

The principal terms of the Master Service Agreement are set out below:

**Parties:** (a) Sun Stud, as the service provider; and

(b) Sun Kingdom Pty Ltd, as the customer

**Subject matter:** Subject to the terms of Master Service Agreement, the Target Company agrees to engage Sun Stud or any member of the Sun Stud Group for the provision of horse racing related services, including but not limited to breeding, rearing, sales, agistment, spelling, education, administration, advice and training of horses to be provided by Sun Stud to the Target Company and/or its Affiliates (including but not limited to Sun Bloodstock) and/or such other services as shall be agreed by the parties thereto in writing from time to time.

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## LETTER FROM THE BOARD

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For the avoidance of doubt, Sun Stud shall have the absolute discretion to determine whether to provide any Services and the Master Service Agreement shall not restrict or limit the Sun Stud Group to provide similar Services to any third parties.

**Pricing policy:** The actual fee to be paid by the Target Company and/or its Affiliates (including but not limited to Sun Bloodstock) and charged by Sun Stud shall be subject to further arm's length negotiations and shall be set out in the individual contracts to be entered into between Sun Stud or member(s) of the Sun Stud Group and the Target Company and/or its Affiliates (including but not limited to Sun Bloodstock), provided that such fee charged by the Sun Stud Group for the Services shall be at a reasonable commercial rate equivalent to (or more favourable to the Sun Stud Group than) the fees charged by Sun Stud when providing similar services to independent third parties.

Before determining the rate of the Services fees applied on the Target Company and its Affiliates and signing the individual contracts, the operation department of the Sun Stud Group will review the services fees rates of relevant comparable services provided to independent third parties, and ensure that the Services fees rate for the Target Company and its Affiliates will be commensurate with the services fees rate for independent third parties and no less favourable to the Sun Stud Group than those for services provided to independent third parties.

**Term:** The term shall be commencing from the Share Sale Completion Date and ending on 31 March 2022 (both days inclusive) unless terminated in accordance with the Master Service Agreement.

### Annual caps for the Master Service Agreement

The aggregate historical transaction amounts received by the Sun Stud Group from (i) Sun Bloodstock and/or its Affiliates under the 2017 Master Service Agreement and (ii) the Target Company in relation to the provision of horse racing related services for the years ended 31 March 2017 and 31 March 2018, and the nine months ended 31 December 2018 and the proposed annual caps for the three years ending 31 March 2020, 31 March 2021 and 31 March 2022 for the Master Service Agreement (which includes the service fees paid under the 2017 Master Service Agreement) are set out below:

Historical amounts			Annual caps		
For the year ended 31 March		For the nine months ended 31 December	For the year ending 31 March		
2017	2018	2018	2020	2021	2022
<i>(AUD)</i>	<i>(AUD)</i>	<i>(AUD)</i>	<i>(AUD)</i>	<i>(AUD)</i>	<i>(AUD)</i>
2,839,000	2,716,000	2,162,000	3,000,000	3,100,000	3,200,000



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The proposed annual caps for the three years ending 31 March 2020, 31 March 2021 and 31 March 2022 for the Master Service Agreement are determined based on (i) the aggregate historical transaction amounts received by the Sun Stud Group from Sun Bloodstock and/or its Affiliates and the Target Company as set out above; (ii) the anticipated increased demand for the Services after the Share Sale Completion; and (iii) the anticipated fee scale for the Services during each of the three years ending 31 March 2020, 31 March 2021 and 31 March 2022.

### **Internal control**

In order to ensure that the terms of the Master Service Agreement and the transactions contemplated thereunder are on normal commercial terms and fair and reasonable to the Company and its Shareholders and that the Services fees are not less favourable to the Group than those available from independent third parties, upon Share Sale Completion, the Group will adopt the following measures:

- (i) the Company will assign the operation manager of the Company to supervise the continuing connected transactions and review and assess whether the continuing connected transactions contemplated under the Master Service Agreement are on normal commercial terms, fair and reasonable and conducted in accordance with the terms of the Master Service Agreement and will also regularly update the market price for the purpose of considering if the Services fees charged for a specific transaction are on normal commercial terms, fair and reasonable and in accordance with the aforesaid pricing policy. In particular, before the provision of the Services by the Sun Stud Group to the Target Company and/or its Affiliates, the operation manager of the Company will review the then prevailing fees charged by Sun Stud when providing similar services to independent third parties to ensure that the Services fees shall be equivalent to (or more favourable to the Sun Stud Group than) the fees charged on independent third parties;
- (ii) further, the Group has identified certain potential competitors of Sun Stud which (a) provide similar service with comparable operation scale; and (b) have facilities located in the proximity of the facilities of Sun Stud. The operation manager of the Company will review all the Services fees rates and pricing of the continuing connected transactions under the Master Service Agreement against the prevailing market price charged by such potential competitors of Sun Stud available to public, including had not limited to their website, in every six months to ensure that the Services fee rates and pricing are comparable to those of such competitors for similar services and are on normal commercial terms. The review result of the operation manager of the Company will be submitted to the chief financial officer of the Company for final approval;
- (iii) the Company's external auditors will conduct an annual review on the pricing and the annual cap of the continuing connected transactions under the Master Service Agreement;
- (iv) the Company's audit committee will review the analysis report and the improvement measures prepared by the management of the Company in relation to the continuing connected transactions under the Master Service Agreement; and

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- (v) the independent non-executive Directors will conduct an annual review of the implementation of the continuing connected transactions under the Master Service Agreement.

Given (i) the peculiar nature of the equine industry and (ii) based on the pricing information available to public, each of the potential competitors of Sun Stud identified had only made one price increment on their service fee during the past two years, the Company considers that the aforementioned internal control measures are sufficient to protect the interest of the Company and its Shareholders as a whole.

### THE SUBSCRIPTION AGREEMENT

The principal terms of the Subscription Agreement are set out below:

**Date:** 14 February 2019 (as amended and supplemented by an extension letter dated 28 March 2019 and as amended and restated by the Amended and Restated Subscription Agreement dated 24 May 2019)

**Parties:** (a) Sun International Group Limited, as the issuer; and  
(b) First Cheer Holdings Limited, as the Subscriber

The Subscriber is a company incorporated in the British Virgin Islands and is principally engaged in investment holding. As at the Latest Practicable Date, the Subscriber holds approximately 47.05% of the issued share capital of the Company and is a controlling shareholder of the Company, and each of Mr. Chau and Mr. Cheng is a director and the beneficial owner of 50% of the issued share capital of the Subscriber. As at the Latest Practicable Date, each of Mr. Chau and Mr. Cheng also owns 1,251,250 Outstanding Options and 1,251,250 Outstanding Options granted by the Company respectively.

### Subscription Shares

Pursuant to the Subscription Agreement, the Subscriber will subscribe for and the Company will allot and issue a total of 780,332,000 Subscription Shares.

The Subscription Shares represents (i) approximately 56.08% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 35.93% of the enlarged issued share capital of the Company (assuming there is no change in the issued share capital of the Company between the Latest Practicable Date and the date of Subscription Completion save for the issuance of the Subscription Shares). The aggregate nominal value of the Subscription Shares is HK\$31,213,280.

### Subscription Price

The Subscription Price of HK\$0.345 per Subscription Share represents:

- (i) a discount of approximately 4.17% to the closing price of HK\$0.360 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

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- (ii) a premium of approximately 21.05% over the closing price of HK\$0.285 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a premium of approximately 18.97% over the average closing price of approximately HK\$0.29 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the Last Trading Day;
- (iv) a discount of approximately 2.82% to the closing price of HK\$0.355 per Share as quoted on the Stock Exchange on the date of the Amended and Restated Subscription Agreement; and
- (v) a discount of approximately 4.43% to the average closing price of approximately HK\$0.361 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the Amended and Restated Subscription Agreement.

As disclosed in the annual report of the Company for the year ended 31 March 2018 and the quarterly report of the Company for the nine months ended 31 December 2018, the Company had net liabilities of approximately HK\$73.2 million as at 31 March 2018 and net liabilities of approximately HK\$123.0 million as at 31 December 2018.

The Subscription Price was arrived at after arm's length negotiations between the Company and the Subscriber with reference to the recent trading price and trading volume of the Shares, the net liabilities position of the Company in the last two financial years and the amount of interest accrued or to be accrued on the Promissory Notes which is agreed to be waived.

The net Subscription Price, after deduction of relevant expenses, is approximately HK\$0.344 per Subscription Share.

### **Subscription Monies**

The subscription monies (the "**Subscription Monies**") for the Subscription Shares is HK\$269,214,540.

At Subscription Completion, the Disposal Vendor, the Disposal Purchaser, the Company, Chau's Holdings, Cheng Family Investment Holdings, the Subscriber and the PN Holders shall enter into the Deed of Consideration Settlement, pursuant to which, among others, (a) the whole amount of the Subscription Monies payable by the Subscriber shall be set off against (i) the entire principal amount of the Chau's Holdings Loan in the amount of HK\$59,493,476.63; (ii) the entire principal amount of the Cheng Family Investment Holdings Loan in the amount of HK\$59,485,976.63; (iii) all the outstanding interests accrued up to 31 December 2018 of the Promissory Note 1 in an aggregate amount of HK\$4,731,754.45; (iv) the entire principal amount of the Promissory Note 1 in the amount of HK\$128,695,259; (v) part of the principal amount of the Promissory Note 2 in the amount of HK\$9,665,460.74; and (vi) part of the principal amount of the Promissory Note 4 in the amount of HK\$7,142,613.56; and (b) Chau's Holdings shall assume a liability owing to Cheng Family Investment Holdings in the amount of HK\$8,400,286.65. As a result, the contribution towards the Subscription Monies by Mr. Chau and Mr. Cheng respectively will be proportionate to their respective shareholding in the Subscriber (namely, 50% by Mr. Chau and 50% by Mr. Cheng).

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At Subscription Completion, the Company and the PN Holders shall enter into the Deed of Extension and Waiver, pursuant to which, among others, (i) each of the PN Holder 1 and the PN Holder 4 agrees to waive all the interest accrued and to be accrued on the Promissory Note 1 and Promissory Note 4 respectively from 1 January 2019 to the date of Subscription Completion; (ii) each of the PN Holder 2 and the PN Holder 3 agrees to extend the maturity date of the Promissory Note 2 and the Promissory Note 3 respectively from 31 January 2021 to 31 January 2023; and (iii) each of the PN Holder 2 and the PN Holder 3 agrees to waive all the interest accrued and to be accrued on the Promissory Note 2 and the Promissory Note 3 respectively from 1 January 2019 to 31 January 2023.

As the Subscription Monies payable by the Subscriber will be set off against the entire principal amount of the Sun Finance Loan, the relevant principal amount and the outstanding interest accrued up to 31 December 2018 of the Promissory Notes, there will be no gross proceeds or net proceeds from the Subscription.

It is expected upon Disposal Completion, Subscription Completion and Share Sale Completion, (i) the Promissory Note 1, Promissory Note 4 and the outstanding interest accrued on the Promissory Notes up to 31 December 2018 will be set off in full; (ii) the outstanding principal amount of the Promissory Note 2 will be reduced from HK\$143,640,000 to HK\$52,527,327.13; (iii) the outstanding principal amount of the Promissory Note 3 will remain at HK\$219,240,000; (iv) the interest accrued or to be accrued on the Promissory Note 1 and Promissory Note 4 from 1 January 2019 to the date of Subscription Completion will be waived by the PN Holder 1 and the PN Holder 4 respectively; (v) the maturity date of each of the Promissory Note 2 and Promissory Note 3 will be extended from 31 January 2021 to 31 January 2023; and (vi) the interest accrued or to be accrued on the Promissory Note 2 and the Promissory Note 3 from 1 January 2019 to 31 January 2023 will be waived by the PN Holder 2 and the PN Holder 3 respectively, which would reduce the Company's annual interest expenses of approximately HK\$19,024,000 during the term of the Promissory Note 2 and the Promissory Note 3 after Disposal Completion, Subscription Completion and Share Sale Completion.

For illustrative purpose only, without the proposed restructuring involving the Disposal, the Subscription and the Share Sale and assuming the maturity date of the Promissory Note 1 is extended, the annual interest expenses of the Company in relation to the Promissory Notes would amount to approximately HK\$29,034,000 during the term of the Promissory Notes.

### **Conditions of the Subscription**

The obligations of the Company to allot and issue, and the Subscriber to subscribe for the Subscription Shares are subject to the following conditions precedent:

- (a) the Listing Division having granted (either unconditional or subject only to conditions to which the Subscriber does not reasonably object) listing of and permission to deal in, the Subscription Shares;
- (b) the passing by the Independent Shareholders at the EGM of all necessary resolution(s) to approve the Subscription Agreement and the transactions contemplated thereunder and all other consents and acts required under the GEM Listing Rules and the Takeovers Code (including but not limited to the allotment and issue of the Subscription Shares and the

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## LETTER FROM THE BOARD

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Whitewash Waiver) having been obtained and completed or, as the case may be, the relevant waiver from compliance with any of such rules having been obtained from the Stock Exchange and the SFC;

- (c) the warranties provided by the Company under the Subscription Agreement remaining true and correct in all material respects;
- (d) all necessary consents and approvals as may be required to be obtained on the part of the Company in respect of the Subscription Agreement and the transactions contemplated thereunder having been obtained;
- (e) all necessary consents and approvals as may be required to be obtained on the part of the Subscriber in respect of the Subscription Agreement and the transaction contemplated thereunder having been obtained;
- (f) the granting of the Whitewash Waiver by the Executive;
- (g) trading in the Shares on the Stock Exchange not being suspended: (i) for a period of more than five (5) consecutive trading days immediately preceding Subscription Completion; and (ii) on the date of Subscription Completion, excluding any suspension for the purposes of clearing any announcement and circular in relation to the Subscription and/or the Whitewash Waiver by the regulatory authorities; and
- (h) the Disposal Agreement having become unconditional in all respects in accordance with its terms (save for the condition that the Subscription Agreement having become unconditional).

As at the Latest Practicable Date, save for the consents/approvals set out in the conditions (a), (b) and (f) above and the approval of the board of directors of the Company and the Subscriber in relation to the Subscription Agreement and the transactions contemplated thereunder, each of the Company and the Subscriber is not aware of any other consents and approvals required to be obtained on its part in respect of the Subscription Agreement and the transactions contemplated thereunder. As at the Latest Practicable Date, the approval of the board of directors of the Company and the Subscriber in relation to the Subscription Agreement and the transactions contemplated thereunder have been obtained.

The Subscriber may at any time by notice in writing to the Company waive the conditions (c) and (g) set out above. The conditions (a), (b), (d), (e), (f) and (h) set out above are incapable of being waived by the Company and the Subscriber. In the event that any of the conditions set out above not being fulfilled or waived in full by 5:00 p.m. on 30 June 2019, or such later date as the Company and the Subscriber may agree in writing, the Subscription Agreement shall cease and determine and neither party shall have any obligations and liabilities thereunder save for any antecedent breaches of the provisions thereof.

Under the Takeovers Code, the resolution in relation to the Whitewash Waiver shall be approved by at least 75% of the independent vote that are cast either in person or by proxy by the Independent Shareholders at the EGM.

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## LETTER FROM THE BOARD

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Notwithstanding that the Disposal Agreement and the Subscription Agreement are inter-conditional on each other and Disposal Completion shall take place contemporaneously with Subscription Completion, the Disposal Agreement and the Subscription Agreement shall be approved by the Independent Shareholders at the EGM by separate resolutions. The aforementioned arrangement is intended to allow the Independent Shareholders to vote for the resolution approving the Disposal Agreement but to vote against the resolution approving the Subscription Agreement, or vice versa.

### **Subscription Completion**

Subject to the conditions of the Subscription Agreement being fulfilled or, as the case may be, waived by the Subscriber, Subscription Completion shall take place contemporaneously with Disposal Completion.

### **Ranking of the Subscription Shares**

The Subscription Shares, when allotted and issued, will rank *pari passu* in all respects among themselves and with the Shares in issue on Subscription Completion.

### **Specific Mandate**

The Subscription Shares will be allotted and issued by the Company pursuant to the Specific Mandate sought to be granted to the Board at the EGM. Therefore, the allotment and issuance of the Subscription Shares by the Company is subject to the approval of the Independent Shareholders at the EGM.

### **Application for listing**

Application will be made by the Company to the Listing Division of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

### **Extension of the Promissory Note 1**

Pursuant to the terms of the Subscription Agreement, in order to facilitate the Subscription, the Subscriber shall unconditionally procure the PN Holder 1 to extend the maturity date of the Promissory Note 1 from 28 February 2019 to 31 March 2019 as soon as practicable, and in any event, on or before 28 February 2019.

On 14 February 2019, the PN Holder 1 executed an extension letter (the “**First Extension Letter**”), pursuant to which the maturity date of the Promissory Note 1 has been extended from 28 February 2019 to 31 March 2019.

On 28 March 2019, the PN Holder 1 executed the second extension letter (together with the First Extension Letter, the “**Extension Letters**”), pursuant to which the maturity date of the Promissory Note 1 has been further extended from 31 March 2019 to 30 June 2019.

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## LETTER FROM THE BOARD

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### CHANGE IN SHAREHOLDING STRUCTURE

The changes of the shareholding structure of the Company as a result of the Subscription (assuming there is no change in the issued share capital of the Company between the Latest Practicable Date and the date of Subscription Completion save for the issuance of the Subscription Shares) are as follows:

Shareholders	<b>As at the Latest Practicable Date</b>		<b>Immediately upon Subscription Completion</b>	
	<i>Number of Shares</i>	<i>Approximate %</i>	<i>Number of Shares</i>	<i>Approximate %</i>
The Subscriber and parties acting in concert with it:				
– The Subscriber	654,677,040	47.05	1,435,009,040	66.08
– Parties acting in concert with the Subscriber	—	—	—	—
<b>Sub-total</b>	<b>654,677,040</b>	<b>47.05</b>	<b>1,435,009,040</b>	<b>66.08</b>
<b>Public Shareholders</b>	<b>736,722,960</b>	<b>52.95</b>	<b>736,722,960</b>	<b>33.92</b>
<b>Total</b>	<b><u>1,391,400,000</u></b>	<b><u>100.00</u></b>	<b><u>2,171,732,000</u></b>	<b><u>100.00</u></b>

*Note:* The Subscriber is beneficially owned as to 50% by Mr. Cheng and as to 50% by Mr. Chau. Accordingly, both Mr. Cheng and Mr. Chau are deemed under the SFO to be interested in the 654,677,040 shares beneficially owned by the Subscriber.

### EQUITY FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company has not conducted any equity fund raising activity in the past 12 months immediately prior to the Latest Practicable Date.

### REASONS FOR AND BENEFITS OF THE DISPOSAL, THE SHARE SALE AND THE SUBSCRIPTION

The Company is an investment holding company. The Group is principally engaged in the provision of equine services, the provision of type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 5 (advising on futures contracts) and type 9 (asset management) regulated activities under the SFO in Hong Kong, and the money lending business.

As disclosed above, the Litigation had been commenced by the Disposal Vendor against the Borrower for, among others, the Sale Loan, and the repayment ability of the Borrower is in doubt. In the event that the Company cannot recover the Sale Loan from the Borrower, the Board considers that a provision for impairment of loan receivables may be required to be made in the next audited accounts of the Company for the year ended 31 March 2019, which, in turn, may further worsen the net liabilities

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## LETTER FROM THE BOARD

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position of the Company and may aggravate the going concern issue. With a view to alleviate the net loss position and going concern issue of the Company, Mr. Cheng, being a controlling shareholder of the Company and the owner of the entire issued share capital of the Disposal Purchaser, is willing to acquire the Sale Interest through the Disposal Purchaser at the Consideration.

As disclosed above, the Company was in a net liabilities position and net loss position for the last two financial years and is indebted to the Subscriber and its associates in the amount of approximately HK\$654,427,000. Further, the Target Company was in a net loss position for the last two financial years. Without taking any measures to improve the financial conditions of and/or reduce the recurring operating costs of the Company, it is expected that net liabilities position, net loss position and the going concern issue will continue to exist for the next audited accounts of the Company for the year ended 31 March 2019.

With a view to alleviate the net liabilities position, net loss position and going concern issue of the Company, Mr. Cheng (together with his associate(s)), being a controlling shareholder of the Company and the beneficial owner of the entire issued share capital of the PN Holder 2 and the Share Sale Purchaser, is willing to acquire the Sale Shares through the Share Sale Purchaser at the Purchase Price and set off part of the principal amount of the Promissory Note 2 against the Sun Kingdom Loan.

With a view to alleviate the net liabilities position, net loss position and going concern issue of the Company, each of (a) Mr. Chau, being a controlling shareholder of the Company and the beneficial owner of the entire issued share capital of Chau's Holdings and 50% of the entire issued share capital of the PN Holder 1 and the Subscriber; and (b) Mr. Cheng (together with his associate(s)), being a controlling shareholder of the Company and the owner of the entire issued share capital of Cheng Family Investment Holdings, the PN Holder 2, the PN Holder 3 and the PN Holder 4, and the beneficial owner of 50% of the entire issued share capital of the PN Holder 1 and the Subscriber, is willing to (a) subscribe for the Subscription Shares through the Subscriber at the Subscription Price by setting off against (i) the entire principal amount of the Sun Finance Loan; and (ii) the relevant principal amount and the outstanding interest accrued up to 31 December 2018 of the Promissory Notes; and (b) waive the interest accrued and to be accrued on the Promissory Notes from 1 January 2019 to the date of Subscription Completion or 31 January 2023 (as the case may be).

Upon Disposal Completion, Share Sale Completion and Subscription Completion, (i) the net liabilities position of the Company will be improved due to the offsetting of part of the principal amount and the outstanding interest accrued up to 31 December 2018 of the Promissory Notes and the entire principal amount of the Sun Finance Loan; (ii) the annual interest expenses of the Company in relation to the Promissory Notes will be reduced by approximately HK\$19,024,000 during the term of the Promissory Note 2 and the Promissory Note 3; (iii) the net loss position of the Company may be alleviated due to the reduction in the interest expenses for the Promissory Notes; and (iv) the going concern issue of the Company may be alleviated.

In view of the above, the Directors (excluding the independent non-executive Directors whose views are expressed in the letter from the Independent Board Committee after taking into consideration of the advice from the Independent Financial Adviser and excluding Mr. Cheng who abstained from voting on the relevant resolutions at the Board meeting approving the Disposal Agreement, the Share Sale Agreement and



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## **LETTER FROM THE BOARD**

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the Subscription Agreement) are of the opinion that the terms of the Disposal (including the Consideration), the Share Sale (including the Purchase Price) and the Subscription (including the Subscription Price) are fair and reasonable and are in the interests of the Shareholders as a whole.

### **REASONS FOR AND BENEFITS OF THE MASTER SERVICE AGREEMENT**

The Company is an investment holding company. The Group is principally engaged in the provision of equine services, the provision of type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 5 (advising on futures contracts) and type 9 (asset management) regulated activities under the SFO in Hong Kong, and the money lending business.

The Directors (excluding the independent non-executive Directors whose views are expressed in the letter from the Independent Board Committee after taking into consideration of the advice from the Independent Financial Adviser and excluding Mr. Cheng who abstained from voting on the relevant resolutions at the Board meeting approving the Master Service Agreement) consider that the entering into of the Master Service Agreement allows the Sun Stud Group to foster its horse racing-related business in Australia and enhance the Group's revenue.

In view of the above, the Directors (excluding the independent non-executive Directors whose views are expressed in the letter from the Independent Board Committee after taking into consideration of the advice from the Independent Financial Adviser and excluding Mr. Cheng who abstained from voting on the relevant resolutions at the Board meeting approving the Master Service Agreement) are of the opinion that the terms of the Master Service Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **IMPLICATIONS UNDER THE GEM LISTING RULES**

As one or more of the applicable percentage ratios in respect of the Disposal exceeds 5% but is less than 25%, the Disposal constitutes a discloseable transaction on the part of the Company under Chapter 19 of the GEM Listing Rules.

As at the Latest Practicable Date, the Disposal Purchaser is ultimately wholly-owned by Mr. Cheng, the chairman, an executive Director and a controlling shareholder of the Company, and hence is a connected person of the Company under Chapter 20 of the GEM Listing Rules. Accordingly, the Disposal also constitutes a connected transaction on the part of the Company and is subject to, among others, the reporting, announcement, circular (including independent financial advice) and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

As one or more of the applicable percentage ratios in respect of the Share Sale exceeds 25% but is less than 75%, the Share Sale constitutes a major transaction on the part of the Company under Chapter 19 of the GEM Listing Rules.

As at the Latest Practicable Date, the Share Sale Purchaser is ultimately wholly-owned by Mr. Cheng, the chairman, an executive Director and a controlling shareholder of the Company, and hence is a connected person of the Company under Chapter 20 of the GEM Listing Rules. Accordingly, the Share Sale

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## LETTER FROM THE BOARD

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also constitutes a connected transaction on the part of the Company and is subject to, among others, the reporting, announcement, circular (including independent financial advice) and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

Immediately upon Share Sale Completion, the Target Company will be wholly-owned by the Share Sale Purchaser which is ultimately wholly-owned by Mr. Cheng, the chairman, an executive Director and a controlling shareholder of the Company, and hence will be a connected person of the Company under Chapter 20 of the GEM Listing Rules. Accordingly, the entering into of the Master Service Agreement and the transactions contemplated thereunder will constitute continuing connected transactions on the part of the Company under Chapter 20 of the GEM Listing Rules.

As one or more of the applicable percentage ratios in respect of the Master Service Agreement is more than 5% and the annual consideration is expected to be more than HK\$10,000,000, the entering into of the Master Service Agreement and the transactions contemplated thereunder is subject to the reporting, announcement, annual review, circular (including independent financial advice) and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

As at the Latest Practicable Date, the Subscriber, which is beneficially owned as to 50% by Mr. Cheng, holds approximately 47.05% of the issued share capital of the Company and is a controlling shareholder of the Company, and hence is a connected person of the Company under Chapter 20 of the GEM Listing Rules. Accordingly, the Subscription also constitutes a connected transaction on the part of the Company and is subject to, among others, the reporting, announcement, circular (including independent financial advice) and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

### **IMPLICATIONS UNDER THE TAKEOVERS CODE**

As at the Latest Practicable Date, the Subscriber controls or is entitled to exercise control over the voting rights in respect of 654,677,040 Shares, representing approximately 47.05% of the entire issued share capital of the Company. Assuming there is no change in the issued share capital of the Company between the Latest Practicable Date and the date of Subscription Completion save for the issuance of the Subscription Shares, immediately following Disposal Completion and Subscription Completion, the shareholding of the Subscriber will increase to approximately 66.08% of the then enlarged total issued share capital of the Company.

Accordingly, pursuant to Rule 26.1 of the Takeovers Code, the Subscriber will be required to make a mandatory general offer for all the issued Shares and the Outstanding Options not already owned or agreed to be acquired by the Subscriber and parties acting in concert with it, unless the Whitewash Waiver has been obtained from the Executive.

Each of Disposal Completion and Subscription Completion is conditional upon, among other things, the Whitewash Waiver being granted by the Executive and approved by the Independent Shareholders. An application has been made by the Subscriber to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that it is minded, subject to approval by the Independent Shareholders in accordance with Note 1 on dispensations from Rule

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## LETTER FROM THE BOARD

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26 of the Takeovers Code, to waive any obligations to make a general offer which might result from the Subscription. The resolution in relation to the Whitewash Waiver shall be approved by at least 75% of the independent vote that are cast either in person or by proxy by the Independent Shareholders at the EGM.

For the avoidance of doubt, each of the Share Sale Completion and the Master Service Agreement is not conditional upon the Whitewash Waiver being granted by the Executive or Disposal Completion and Subscription Completion.

As at the Latest Practicable Date, the Company does not believe that the Subscription and the transactions contemplated thereunder give rise to any concerns in relation to compliance with other applicable rules or regulations (including the GEM Listing Rules). The Company notes that the Executive may not grant the Whitewash Waiver if the Subscription and the transactions contemplated thereunder does not comply with other applicable rules and regulations.

In addition, since each of the Disposal, the Share Sale and the Master Service Agreement is an arrangement made between the Company, a party acting in concert with the Subscriber, and the Subscriber (which is a controlling shareholder of the Company), which is not capable of being extended to all Shareholders, each of the Disposal, the Share Sale and the Master Service Agreement constitutes a special deal under Rule 25 of the Takeovers Code and requires the consent of the Executive. An application has been made to the Executive for the consent to proceed with the Special Deals under Rule 25 of the Takeovers Code. Such consent, if granted, will be subject to (i) the Independent Financial Adviser publicly stating that in its opinion the terms of each of the Disposal, the Share Sale and the Master Service Agreement are fair and reasonable; and (ii) the approval of each of the Disposal, the Share Sale and the Master Service Agreement by the Independent Shareholders by way of poll at the EGM.

### **INTENTIONS OF THE VENDOR REGARDING THE GROUP**

As at the Latest Practicable Date, save for the Disposal and the Share Sale, the Vendor intends to continue the existing business and the continued employment of the employees of the Group, does not intend to introduce any major changes to the existing operation and business of the Company or dispose of any of the assets of the Group other than in the ordinary course of business.

### **GENERAL**

An Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Chan Tin Lup, Trevor, Mr. Tou Kin Chuen and Mr. Jim Ka Shun, has been established to consider, and to advise the Independent Shareholders in relation to the Disposal, the Share Sale, the Master Service Agreement, the Subscription, the transactions contemplated respectively thereunder, the Special Deals and the Whitewash Waiver.

The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

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## LETTER FROM THE BOARD

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An EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, to approve by way of poll, among other matters, (i) the Disposal Agreement and the transactions contemplated thereunder; (ii) the Share Sale Agreement and the transactions contemplated thereunder; (iii) the Master Service Agreement and the transactions contemplated thereunder; (iv) the Subscription Agreement and the transactions contemplated thereunder; (v) the Special Deals; and (vi) the Whitewash Waiver. As at the Latest Practicable Date, the Subscriber, the issued share capital of which is beneficially owned as to 50% by Mr. Cheng, is interested in 654,677,040 Shares, representing approximately 47.06% of the total issued share capital of the Company. The Subscriber, not being an Independent Shareholder, will be required to abstain from voting for the resolution(s) in respect of the Disposal Agreement, the Share Sale Agreement, the Master Service Agreement, the Subscription Agreement, the transactions contemplated respectively thereunder, the Special Deals and the Whitewash Waiver at the EGM. As at the Latest Practicable Date, none of the associates of and the parties acting in concert with the Subscriber and/or its associates owns any Shares.

Save for the aforesaid, no other Shareholder is required to abstain from voting in respect of the resolutions to consider and approve, among others, the Subscription Agreement, the Disposal Agreement, the Share Sale Agreement, the Master Service Agreement and the transactions contemplated respectively thereunder, the Special Deals and the Whitewash Waiver at the EGM.

A notice convening the EGM to be held on Monday, 24 June 2019 at 10:30 a.m. at Units 2414-2418, 24/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong is set out on pages EGM-1 to EGM-4 of this circular for the purpose of considering and, if thought fit, passing the ordinary resolutions set out therein.

Under Rule 17.47(4) of the GEM Listing Rules any vote of the Shareholders at general meetings must be taken by poll. Under Rule 2.9 of the Takeovers Code, voting on the Whitewash Waiver at the EGM must be taken by poll.

You will find enclosed the proxy forms for use at the EGM. Whether or not you are able to attend the EGM, you are requested to complete and return the enclosed proxy forms in accordance with the instructions printed thereon to the office of the share registrar and transfer office of the Company, Tricor Tengis Limited, at Level 22 Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM, or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM, or any adjournment thereof, should you so wish.

### RECOMMENDATION

The Independent Board Committee comprising all the independent non-executive Directors has been established to consider, and to advise the Independent Shareholders in relation to the Disposal, the Share Sale, the Master Service Agreement, the Subscription, the transactions contemplated respectively thereunder, the Special Deals and the Whitewash Waiver.

The Directors (excluding the independent non-executive Directors whose views are expressed in the letter from the Independent Board Committee after taking into consideration of the advice from the Independent Financial Adviser and excluding Mr. Cheng who abstained from voting on the relevant

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## LETTER FROM THE BOARD

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resolutions at the Board meeting approving the Disposal Agreement, the Share Sale Agreement, the Master Service Agreement and the Subscription Agreement), consider the terms of each of the Disposal, the Share Sale, the Master Service Agreement, the Subscription, the transactions contemplated respectively thereunder, the Special Deals and the Whitewash Waiver are in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the resolutions in respect of the Disposal, the Share Sale, the Master Service Agreement, the Subscription, the transactions contemplated respectively thereunder, the Special Deals and the Whitewash Waiver to be proposed at the EGM.

The recommendation of the Independent Board Committee is set out on pages 35 to 36 in this circular and the letter from Astrum Capital is set out on pages 37 to 80 in this circular.

### ADDITIONAL INFORMATION

Your attention is also drawn to the information set out in the appendices to this circular.

**The Disposal, the Share Sale, the Master Service Agreement and the Subscription are conditional upon the relevant conditions precedent being fulfilled (or waived, as the case may be) and may or may not proceed. In particular, the Executive may or may not grant the Whitewash Waiver. If the Whitewash Waiver is not granted by the Executive or is not approved by the Independent Shareholders by way of poll, the Disposal Agreement and the Subscription Agreement will lapse and the Disposal and the Subscription will not proceed. Accordingly, the Shareholders and prospective investors are reminded to exercise caution when trading in the securities of the Company.**

**If the Whitewash Waiver is granted by the Executive and approved by the Independent Shareholders, immediately upon issuance of the Subscription Shares, the shareholding of the Subscriber and parties acting in concert with it in the Company will exceed 50% of the voting rights of the Company. The Subscriber may increase its shareholding without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer for the securities of the Company.**

Yours faithfully,  
By Order of the Board  
**Sun International Group Limited**  
**Cheng Ting Kong**  
*Chairman*

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LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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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)**

6 June 2019

*To the Independent Shareholders*

Dear Sir or Madam,

- (1) DISCLOSEABLE TRANSACTION, CONNECTED TRANSACTION AND SPECIAL DEAL UNDER THE DISPOSAL AGREEMENT**
- (2) MAJOR TRANSACTION, CONNECTED TRANSACTION AND SPECIAL DEAL UNDER THE SHARE SALE AGREEMENT**
- (3) CONTINUING CONNECTED TRANSACTION AND SPECIAL DEAL UNDER THE MASTER SERVICE AGREEMENT**
- (4) CONNECTED TRANSACTION RELATING TO SUBSCRIPTION OF SHARES UNDER SPECIFIC MANDATE**
- (5) APPLICATION FOR WHITEWASH WAIVER**

We refer to the circular of Sun International Group Limited (the “**Company**”) dated 6 June 2019 (the “**Circular**”) to the shareholders of the Company, of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context requires otherwise.

We have been appointed by the Board as the Independent Board Committee to advise you in relation to the Disposal, the Share Sale, the Master Service Agreement, the Subscription and the transactions contemplated respectively thereunder, the Special Deals and the Whitewash Waiver.

Astrum Capital has been appointed to act as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Disposal, the Share Sale, the Master Service Agreement, the Subscription, the transactions contemplated respectively thereunder, the Special Deals and the Whitewash Waiver. The text of the letter of advice from Astrum Capital containing their recommendation and the principal factors they have taken into account in arriving at their recommendation is set out on pages 37 to 80 of the Circular.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Independent Shareholders are recommended to read the letter of advice from Astrum Capital, the letter from the Board contained in the Circular as well as the additional information set out in the appendices to the Circular. Having considered the terms of the Disposal, the Share Sale, the Master Service Agreement, the Subscription and the transactions contemplated respectively thereunder, the Special Deals and the Whitewash Waiver and the advice of Astrum Capital, we consider that the terms of the Disposal, the Share Sale, the Master Service Agreement, the Subscription and the transactions contemplated respectively thereunder, the Special Deals and the Whitewash Waiver are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

We recommend the Independent Shareholders to vote in favour of the resolutions in respect of the Disposal, the Share Sale, the Master Service Agreement, the Subscription and the transactions contemplated respectively thereunder, the Special Deals and the Whitewash Waiver to be proposed at the EGM.

Yours faithfully,

*For and on behalf of  
the Independent Board Committee*

**Mr. Chan Tin Lup, Trevor**  
*Independent non-executive Director*

**Mr. Jim Ka Shun**  
*Independent non-executive Director*

**Mr. Tou Kin Chuen**  
*Independent non-executive Director*

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## LETTER FROM ASTRUM CAPITAL

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*The following is the full text of a letter of advice from Astrum Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of incorporation into this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in relation to the Disposal, the Share Sale, the Master Service Agreement, the Subscription and the transactions contemplated respectively thereunder, the Special Deals and the Whitewash Waiver.*



Room 2704, 27/F, Tower 1, Admiralty Centre,  
18 Harcourt Road, Admiralty, Hong Kong

6 June 2019

*To the Independent Board Committee and  
the Independent Shareholders of  
Sun International Group Limited*

Dear Sirs,

- (1) DISCLOSEABLE TRANSACTION, CONNECTED TRANSACTION AND SPECIAL DEAL UNDER THE DISPOSAL AGREEMENT;**
- (2) MAJOR TRANSACTION, CONNECTED TRANSACTION AND SPECIAL DEAL UNDER THE SHARE SALE AGREEMENT;**
- (3) CONTINUING CONNECTED TRANSACTION AND SPECIAL DEAL UNDER THE MASTER SERVICE AGREEMENT;**
- (4) CONNECTED TRANSACTION RELATING TO SUBSCRIPTION OF SHARES UNDER SPECIFIC MANDATE; AND**
- (5) APPLICATION FOR WHITEWASH WAIVER**

### INTRODUCTION

We refer to our engagement as the independent financial adviser to make recommendations to the independent board committee (the “**Independent Board Committee**”) and the independent shareholders (the “**Independent Shareholders**”) of Sun International Group Limited (the “**Company**”) in relation to the Disposal, the Share Sale, the Master Service Agreement, the Subscription, the Whitewash Waiver and the Special Deals. The details of which are disclosed in the announcements of the Company dated 14 February 2019 (the “**Announcement**”), 28 March 2019 and 24 May 2019 and in the letter from the board (the “**Letter from the Board**”) set out on pages 10 to 34 of the circular of the Company dated 6 June 2019 (the “**Circular**”) to its shareholders, of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.



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## LETTER FROM ASTRUM CAPITAL

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On 14 February 2019, the Disposal Vendor, being a wholly-owned subsidiary of the Company, entered into the Disposal Agreement with the Disposal Purchaser, pursuant to which the Disposal Vendor has conditionally agreed to sell the Sale Interest and the Disposal Purchaser has conditionally agreed to acquire the Sale Interest at the Consideration of HK\$31,998,318. Pursuant to the Disposal Agreement, the Consideration shall be set off against part of the principal amount of the Promissory Note 4 and the outstanding interest accrued up to 31 December 2018 of the Promissory Note 2, the Promissory Note 3 and the Promissory Note 4 in the amount of HK\$31,998,318, which is equivalent to the outstanding amount of the Sale Loan and the outstanding interest accrued thereon as at 2 August 2018.

On 14 February 2019, the Share Sale Vendor, being a wholly-owned subsidiary of the Company, entered into the Share Sale Agreement with the Share Sale Purchaser, pursuant to which the Share Sale Vendor has conditionally agreed to sell the Sale Shares and the Share Sale Purchaser has conditionally agreed to acquire the Sale Shares at the Purchase Price.

Following Share Sale Completion, the Target Company, the Share Sale Purchaser, the Company, Cheng Family Investment Holdings and the PN Holder 2 shall enter into the Deed of Set-off, pursuant to which, among others, the whole amount of the Sun Kingdom Loan owed by the Target Company to the Company shall be set off against part of the principal amount of the Promissory Note 2 in the amount of HK\$81,447,212.13 (equivalent to approximately AUD14,440,995.06, being the amount of the Sun Kingdom Loan).

According to the terms of the Share Sale Agreement, upon Share Sale Completion, Sun Stud, being a wholly-owned subsidiary of the Company, and the Target Company will enter into the Master Service Agreement, pursuant to which the Sun Stud Group will agree to provide the Services to the Target Company and/or its Affiliates (including but not limited to Sun Bloodstock) for a term commencing from the Share Sale Completion Date and ending on 31 March 2022 (both days inclusive). It is expected that upon Share Sale Completion, all the horse racing related services will be provided by Sun Stud Group to the Target Company and/or its Affiliates (including but not limited to Sun Bloodstock) under the Master Service Agreement.

On 14 February 2019, the Company and the Subscriber entered into the Subscription Agreement, pursuant to which the Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue a total of 868,434,000 Shares, being the original number of the subscription shares at the original subscription price of HK\$0.31 per subscription share. Pursuant to the Subscription Agreement, the Subscription Monies shall be set off against (i) the entire principal amount of the Sun Finance Loan; (ii) the outstanding interest accrued up to 31 December 2018 of the Promissory Note 1; and (iii) the relevant principal amount of the Promissory Note 1, the Promissory Note 2 and the Promissory Note 4, in an aggregate amount equivalent to the Subscription Monies upon Subscription Completion.

On 28 March 2019, the Disposal Vendor and the Disposal Purchaser entered into an extension letter to the Disposal Agreement to extend the long stop date of the Disposal Agreement to 30 June 2019, or such later date as the Disposal Vendor and the Disposal Purchaser may agree in writing.

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## LETTER FROM ASTRUM CAPITAL

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On 28 March 2019, the Share Sale Vendor and the Share Sale Purchaser entered into a deed of amendment to the Share Sale Agreement to amend the terms of the Master Service Agreement to be entered into such that, (i) the term of the Master Service Agreement shall commence on Share Sale Completion Date and ending on 31 March 2022 (both days inclusive); and (ii) the proposed annual caps for the three years ending 31 March 2020, 31 March 2021 and 31 March 2022 shall be AUD3,000,000 (equivalent to approximately HK\$16,920,000), AUD3,100,000 (equivalent to approximately HK\$17,484,000) and AUD3,200,000 (equivalent to approximately HK\$18,048,000) respectively.

On 28 March 2019, the Company and the Subscriber entered into an extension letter to the Subscription Agreement to extend the long stop date of the Subscription Agreement from 31 March 2019 to 30 June 2019, or such later date as the Company and the Subscriber may agree in writing.

On 28 March 2019, the PN Holder 1 executed the second extension letter, pursuant to which the maturity date of the Promissory Note 1 has been further extended from 31 March 2019 to 30 June 2019.

In light of the then recent trading price of the Shares and upon negotiation between the Subscriber and the Company, on 24 May 2019, the Subscriber and the Company entered into an amended and restated subscription agreement (the “**Amended and Restated Subscription Agreement**”) to amend and restate the Subscription Agreement, pursuant to which (i) the amount of the subscription price shall be increased from HK\$0.31 per subscription share to HK\$0.345 per Subscription Share; and (ii) the number of the Subscription Shares shall be decreased from 868,434,000 Shares to 780,332,000 Shares.

On 24 May 2019, the Disposal Vendor and the Disposal Purchaser also entered into the amended and restated disposal agreement (the “**Amended and Restated Disposal Agreement**”) to amend and restate the Disposal Agreement, in order to reflect the amendments made in the Amended and Restated Subscription Agreement, in particular, the changes in the amount of the Subscription Price and the number of the Subscription Shares.

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Mr. Chan Tin Lup, Trevor, Mr. Tou Kin Chuen and Mr. Jim Ka Shun, has been established to advise and provide recommendation to the Independent Shareholders on the voting in respect of (i) the Disposal Agreement and the transactions contemplated thereunder; (ii) the Share Sale Agreement and the transactions contemplated thereunder; (iii) the Master Service Agreement and the transactions contemplated thereunder; (iv) the Subscription Agreement and the transactions contemplated thereunder; (v) the Whitewash Waiver; and (vi) the Special Deals. We, Astrum Capital Management Limited, have been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

### INDEPENDENCE DECLARATION

During the last two years, we have acted as the independent financial adviser of a listed company on the Stock Exchange, where Mr. Chau (who is the beneficial owner of 50% of the issued share capital of the Subscriber) is the executive director, chairman and controlling shareholder, in respect of certain connected transactions. Save as disclosed above, we were not aware of any relationships or interests between Astrum

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## LETTER FROM ASTRUM CAPITAL

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Capital Management Limited, the Company, Mr. Cheng, Mr. Chau, the Disposal Purchaser, the Share Sale Purchaser, the PN Holders, the Target Company, Sun Bloodstock, Chau's Holdings, Cheng Family Investment Holdings, the Subscriber, and/or any of their respective substantial shareholders, directors or chief executive, or any of their respective associates. In the last two years, save for the appointment as the independent financial adviser of the Company in respect of the acquisition of the entire issued share capital of Sun Finance Company Limited (details of which were set out in the circular of the Company dated 22 December 2017), there was no other engagement between the Group and Astrum Capital Management Limited. Apart from the normal advisory fees payable to us for this engagement, no other arrangement exists whereby we will receive any fees and/or benefits from the Group. Accordingly, Astrum Capital Management Limited is independent as defined under the GEM Listing Rules and the Takeovers Code to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Disposal, the Share Sale, the Master Service Agreement, the Subscription, the Whitewash Waiver and the Special Deals.

### BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have reviewed, *inter alia*, the Announcement, the Circular, the annual reports of the Company for the financial years ended 31 March 2017 and 31 March 2018 (the “**2016-17 Annual Report**” and “**2017-18 Annual Report**”, respectively), the interim report of the Company for the six months ended 30 September 2018 (the “**2018 Interim Report**”) and the third quarterly report of the Company for the nine months ended 31 December 2018 (the “**2018 Third Quarterly Report**”). We have also reviewed certain information provided by the management of the Company (the “**Management**”) relating to the operations, financial conditions and prospects of the Group. We have also (i) considered such other information, analyses and market data which we deemed relevant; and (ii) conducted discussions with the Management regarding the Disposal, the Share Sale, the Master Service Agreement, the Subscription, the Whitewash Waiver, the Special Deals, the existing financial status, businesses and future outlook of the Group. We have assumed that such information and statements, and any representation made to us, are true, accurate and complete in all material respects as of the date hereof and we have relied upon them in formulating our opinion.

All Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular (other than those relating to the Disposal Purchaser, the Share Sale Purchaser and the Subscriber) and confirm having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular (other than those expressed by the respective directors of the Disposal Purchaser, the Share Sale Purchaser and the Subscriber) have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

The directors of the Disposal Purchaser, namely, Ms. To Hoi Man and the spouse of Mr. Cheng, Ms. Yeung So Mui, and Mr. Cheng jointly and severally accept full responsibility for the accuracy of the information relating to the Disposal Purchaser contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed by the directors of the Disposal Purchaser in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

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## LETTER FROM ASTRUM CAPITAL

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The directors of the Share Sale Purchaser, namely, Mr. Cheng and his spouse, Ms. Yeung So Mui, jointly and severally accept full responsibility for the accuracy of the information relating to the Share Sale Purchaser contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed by the directors of the Share Sale Purchaser in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

The directors of the Subscriber, namely Mr. Cheng and Mr. Chau, jointly and severally accept full responsibility for the accuracy of the information relating to the Subscriber contained in the Circular and confirms, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed by the directors of the Subscriber in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We consider that we have performed all necessary steps to enable us to reach an informed view regarding the Disposal, the Share Sale, the Master Service Agreement, the Subscription, the Whitewash Waiver and the Special Deals, and to justify our reliance on the information provided so as to provide a reasonable basis of opinion. We have no reasons to suspect that any material information has been withheld by the Directors or the Management, or is misleading, untrue or inaccurate. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the businesses or affairs or future prospects of the Group. Our opinion is necessarily based on financial, economic, market and other conditions in effect, and the information made available to us, as at the Latest Practicable Date. Pursuant to Rule 9.1 of the Takeovers Code, the Company is required to notify the Shareholders of any material changes to information contained in the Circular as soon as possible subsequent to the Latest Practicable Date and prior to the EGM. If we become aware of any such material change, we will notify the Shareholders of the potential impact on our opinion and/or recommendation set out in this letter as soon as possible.

This letter is issued to provide the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Disposal, the Share Sale, the Master Service Agreement, the Subscription, the Whitewash Waiver and the Special Deals. Except for the inclusion in the Circular, this letter is not to be quoted or referred to, in whole or in part, nor shall it be used for any other purposes, without our prior written consent.

*For illustration purpose, the HK\$ amounts have been converted from AUD amounts at the rate of AUD1.00 to HK\$5.64 in this letter.*

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## LETTER FROM ASTRUM CAPITAL

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the terms of the Disposal, the Share Sale, the Master Service Agreement, the Subscription, the Whitewash Waiver and the Special Deals are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, we have taken into account the principal factors and reasons set out below:

#### 1. Information on the Company

According to the 2017-18 Annual Report, the Company is an investment holding company. The Group is principally engaged in money lending, securities, investment holding, trading of bloodstocks, provision of equine related services and investment in stallions, property investment holding, provision of human resources and administrative services for the subsidiaries in Australia.

#### 2. Financial information of the Group

The following table sets out (i) the audited financial information of the Group for the three financial years ended 31 March 2016, 31 March 2017 and 31 March 2018 (“FY2015-16”, “FY2016-17” and “FY2017-18”, respectively) as extracted from the 2016-17 Annual Report and the 2017-18 Annual Report; (ii) the unaudited profit and loss figures of the Group for the nine months ended 31 December 2017 and 31 December 2018 (“9M2017” and “9M2018”, respectively) as extracted from the 2018 Third Quarterly Report; and (iii) the unaudited balance sheet figures of the Group as at 30 September 2018 as extracted from the 2018 Interim Report:

*Table 1: Financial information of the Group*

	FY2015-16	FY2016-17	FY2017-18	9M2017	9M2018
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
	<i>(Restated)</i>	<i>(Restated)</i>			
	<i>(Note 1)</i>	<i>(Notes 1 &amp; 2)</i>			
Revenue from continuing operations	121,138,764	94,736,647	118,798,880	81,605,205	98,760,987
Gross profit from continuing operations	71,213,065	54,873,449	67,364,790	44,943,594	64,597,793
(Loss) for the year/period from continuing operations	(125,390,687)	(84,982,070)	(51,830,494)	(36,821,613)	(77,075,168)
(Loss) for the year/period from discontinued operations	(182,954)	(902,858)	(11,657,764)	-	-
(Loss) attributable to equity holders of the Company for the year/period	(115,695,395)	(85,358,958)	(60,734,864)	(33,937,926)	(77,075,168)

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**LETTER FROM ASTRUM CAPITAL**

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	<b>As at 31</b>	<b>As at 31</b>	<b>As at 31</b>	<b>As at 30</b>
	<b>March 2016</b>	<b>March 2017</b>	<b>March 2018</b>	<b>September</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>
	<i>(Restated)</i>			
	<i>(Note 1)</i>			
Non-current assets	307,302,190	149,772,537	143,068,808	141,386,330
Current assets	487,855,501	410,487,123	637,594,125	617,704,171
Current (liabilities)	(360,753,656)	(375,431,747)	(418,766,902)	(432,261,982)
Net current assets	127,101,845	35,055,376	218,827,223	185,442,189
Non-current (liabilities)	(352,016,328)	(190,215,816)	(435,145,300)	(428,411,546)
Net assets/(liabilities) attributable to equity holders of the Company	79,150,958	(8,098,682)	(73,249,269)	(101,583,027)

*Source: the 2016-17 Annual Report, the 2017-18 Annual Report, the 2018 Interim Report and the 2018 Third Quarterly Report*

*Note:*

1. On 30 November 2015, the Group completed its disposal of a subsidiary of Sun Entertainment Group Limited which operated the entertainment business, to an independent third party – Sun Entertainment Holdings Limited at the cash consideration of HK\$6,400. Full consideration was received in January 2016. Accordingly, the results of entertainment, hotel business and mining business have been presented as discontinued operations in the consolidated financial statements for FY2015-16 and FY2016-17, respectively.
2. On 29 March, 2018, Galileo Capital Group (BVI) Limited (“**Galileo Capital**”), a direct wholly-owned subsidiary of the Company, entered into a disposal agreement with an independent third party (the “**Purchaser**”), pursuant to which Galileo Capital agreed to sell and the Purchaser agreed to purchase, the entire equity interest in Loyal King Investments Limited for the consideration HK\$1,000,000.00. Loyal King Investments Limited and its subsidiaries were engaged in information technology (“**IT**”) business. The Group disposed of this sector of business due to keen competition in IT experts and market. Accordingly, the IT business has been treated and presented as discontinued operations in the consolidated financial statements for FY2016-17 and FY2017-18, respectively.

*(i) For the year ended 31 March 2017 (i.e. FY2016-17)*

In FY2016-17, the Group recorded total revenue from continuing operations of approximately HK\$94.7 million, representing a decrease of approximately 21.8% as compared to approximately HK\$121.1 million in FY2015-16. As advised by the Management, the decrease in revenue from continuing operations was mainly attributable to (i) the decrease in income generated from equine services business of approximately HK\$36.3 million; and (ii) the exclusion of income generated from IT business which has been presented as

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## LETTER FROM ASTRUM CAPITAL

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discontinued operations in FY2016-17 (FY2015-16: approximately HK\$28.6 million), which was partially offset by the increase in revenue generated from financial services business of approximately HK\$38.4 million. The Group's gross profit from continuing operations decreased by approximately 22.9% from approximately HK\$71.2 million in FY2015-16 to approximately HK\$54.9 million in FY2016-17, and the gross profit margin decreased slightly by approximately 0.9 percentage points from approximately 58.8% in FY2015-16 to 57.9% in FY2016-17.

In FY2016-17, the Group recorded loss attributable to equity holders of the Company of approximately HK\$85.4 million as compared to approximately HK\$115.7 million in FY2015-16, representing a decrease of approximately 26.2%. The decrease in loss was mainly due to (i) the decrease in share of losses of associates of approximately HK\$35.6 million; (ii) the one-off gain on disposal of associates in FY2016-17 of approximately HK\$14.8 million (FY2015-16: nil); and (iii) the absence of impairment loss on goodwill and amount due from non-controlling shareholders of a subsidiary of the Company in FY2016-17 (FY2015-16: approximately HK\$15.9 million), which was partially offset by (i) the decrease in revenue from continuing operations of approximately HK\$26.4 million; (ii) the increase in finance cost of approximately HK\$10.4 million; and (ii) the increase in fair value loss on biological assets of approximately HK\$7.6 million.

As at 31 March 2017, the Group's total assets and total liabilities amounted to approximately HK\$560.3 million (31 March 2016: approximately HK\$795.2 million) and approximately HK\$565.6 million (31 March 2016: approximately HK\$712.8 million), respectively. The Group recorded net liabilities attributable to equity holders of the Company of approximately HK\$8.1 million as at 31 March 2017 as compared to net assets attributable to equity holders of the Company of approximately HK\$79.2 million as at 31 March 2016. Such change was mainly due to the loss attributable to equity holders of the Company for FY2016-17 of approximately HK\$85.4 million and loss derived from currency translation differences on translating foreign operations of approximately HK\$1.9 million.

(ii) *For the year ended 31 March 2018 (i.e. FY2017-18)*

In FY2017-18, the Group recorded total revenue from continuing operations of approximately HK\$118.8 million, representing an increase of approximately 25.4% as compared to approximately HK\$94.7 million in FY2016-17. We noted from the 2017-18 Annual Report that the increase in revenue from continuing operations was mainly attributable to the increase in income generated from equine services business and money lending business. In line with the growth of revenue, the Group's gross profit from continuing operations increased by approximately 22.8% from approximately HK\$54.9 million in FY2016-17 to approximately HK\$67.4 million in FY2017-18. However, the gross profit margin decreased by approximately 1.2 percentage points from approximately 57.9% in FY2016-17 to approximately 56.7% in FY2017-18. As disclosed in the 2017-18 Annual Report, the decrease in gross profit margin was mainly due to the increase in direct cost in equine services business.

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In FY2017-18, the Group recorded loss attributable to equity holders of the Company of approximately HK\$60.7 million as compared to approximately HK\$85.4 million in FY2016-17, representing a decrease of approximately 28.8%. Such improvement was mainly attributable to (i) the increase in revenue from continuing operations of approximately HK\$24.1 million; (ii) the decrease in administrative expenses of approximately HK\$16.6 million; and (iii) the fair value gain on biological assets in FY2017-18 of approximately HK\$11.0 million (FY2016-17: loss of approximately HK\$9.1 million), which was partially offset by (i) the absence of the gain on disposal of associates in FY2017-18 (FY2016-17: approximately HK\$14.8 million); and (ii) the increase in loss from discontinued operations of approximately HK\$10.8 million.

As at 31 March 2018, the Group's total assets and total liabilities amounted to approximately HK\$780.7 million (31 March 2017: approximately HK\$560.3 million) and approximately HK\$853.9 million (31 March 2017: approximately HK\$565.6 million), respectively. The Group recorded net liabilities attributable to equity holders of the Company of approximately HK\$73.2 million as at 31 March 2018 as compared to net liabilities attributable to equity holders of the Company of approximately HK\$8.1 million as at 31 March 2017. The increase in net liabilities was primarily due to loss attributable to equity holders of the Company for FY2017-18 of approximately HK\$60.7 million and loss derived from currency translation differences on translating foreign operations of approximately HK\$4.4 million.

As disclosed in the 2017-18 Annual Report, Andes Glacier CPA Limited (“**Andes Glacier**”), the former auditors of the Company, expressed their adverse opinion on (i) loan receivable of the Group, where three loan receivables in the aggregate amount of HK\$73 million (including interest receivable) as at 31 March 2018 were drawdown more than three years and were overdue without repayment of principal and renewal of written loan contracts; (ii) advances to customers in margin financing; and (iii) material uncertainty related to going concern of the Group in view of, among others, (a) the net liabilities position of the Group of approximately HK\$73.2 million as at 31 December 2018; (b) the consecutive loss-making position of the Group since 2013; and (c) the loss of the Group for FY2017-18 of approximately HK\$63.5 million. Andes Glacier also stated that the validity of the going concern assumption is dependent on the successful and favourable outcomes of the measures being taken by the management of the Group and the financial support from significant shareholder of the Company.

*(iii) For the nine months ended 31 December 2018 (i.e. 9M2018)*

In 9M2018, the Group recorded total revenue of approximately HK\$98.8 million, representing an increase of approximately 21.0% as compared to approximately HK\$81.6 million in 9M2017. As disclosed in the 2018 Third Quarterly Report, the increase in revenue was mainly due to the increase in revenue generated from financial services business of approximately HK\$34.3 million. The Group's gross profit increased by approximately 43.7% from approximately HK\$44.9 million in 9M2017 to approximately HK\$64.6 million in 9M2018, and the gross profit margin increased by approximately 10.3 percentage points from approximately 55.1% in 9M2017 to approximately 65.4% in 9M2018.



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Notwithstanding the increase in gross profit, loss attributable to equity holders of the Company increased from approximately HK\$33.9 million for 9M2017 to approximately HK\$77.1 million for 9M2018, representing an increase of approximately 127.1%. The deterioration was mainly due to the increase in administrative cost of approximately HK\$51.6 million, which was partially offset by the increase in gross profit of approximately HK\$19.7 million.

As at 30 September 2018, the Group's total assets and total liabilities amounted to approximately HK\$759.1 million (31 March 2018: approximately HK\$780.7 million) and approximately HK\$860.7 million (31 March 2018: approximately HK\$853.9 million), respectively. As a result of loss for the period of approximately HK\$50.9 million, and the effect of which was partially offset by gain on currency translation differences of approximately HK\$22.6 million, the net liabilities attributable to equity holders of the Company further increased from approximately HK\$73.2 million as at 31 March 2018 to approximately HK\$101.6 million as at 30 September 2018.

According to the Announcement, the Group was indebted to the Subscriber and its associates in the amount of HK\$654,427,398.27 as at the date of the Announcement. The following table sets out details of the indebtedness:

***Table 2: Indebtedness of the Group to the Subscriber and its associates as at the date of the Announcement (i.e. 14 February 2019)***

	Principal amount (HK\$)	Outstanding accrued interest thereon up to 31 December 2018 (HK\$)	Total (HK\$)	Annual interest rate	Due date	Annual interest amount (HK\$)
Sun Finance Loan	118,979,453.26	–	118,979,453.26	Nil	Repayable on demand	Nil
Promissory Note 1	128,695,259.00	4,731,754.45	133,427,013.45	2%	28 February 2019 (extended to 30 June 2019)	2,573,905.18
Promissory Note 2	143,640,000.00	9,127,954.00	152,767,954.00	7%	31 January 2021	10,054,800.00
Promissory Note 3	219,240,000.00	13,932,140.28	233,172,140.28	7%	31 January 2021	15,346,800.00
Promissory Note 4	<u>15,120,000.00</u>	<u>960,837.28</u>	<u>16,080,837.28</u>	7%	31 January 2021	<u>1,058,400.00</u>
<b>Total</b>	<b><u>625,674,712.26</u></b>	<b><u>28,752,686.01</u></b>	<b><u>654,427,398.27</u></b>			<b><u>29,033,905.18</u></b>

Without conducting any equity/debt fund raising activities by the Company, (i) the Company expects that it would not have sufficient financial resources to repay the Promissory Note 1 (which has been due on 28 February 2019 and was subsequently extended to 30 June 2019 pursuant to

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the Extension Letters) and/or other indebtedness as set out above; and (ii) as communicated with the auditors of the Company, if the net liabilities position of the Company continues to exist as at 31 March 2019, the audit qualification on material uncertainty related to the going concern of the Group cannot be fully mitigated in the next audited accounts of the Company for the year ended 31 March 2019 due to the net liabilities position of the Company. As at the Latest Practicable Date, the audited consolidated financial statements of the Group is still under preparation and, according to the auditors of the Company, the relieve of the going concern issue will be subject to the Disposal Completion, the Share Sale Completion and the Subscription Completion. With a view to alleviate the aforementioned net liabilities position, loss-making position and going concern issue, the Company had been in negotiation with Mr. Cheng and the Subscriber for a series of restructuring transactions and eventually leading to the Disposal, the Share Sale, the Subscription, the Deed of Set-off, the Deed of Consideration Settlement and the Deed of Extension and Waiver (altogether the “**Restructuring**”).

### 3. The Disposal Agreement

The principal terms of the Disposal Agreement are set out below:

- Date:** 14 February 2019 (as amended and supplemented by an extension letter dated 28 March 2019 and as amended and restated by the Amended and Restated Disposal Agreement dated 24 May 2019)
- Parties:** (a) Sun Finance Company Limited, as the Disposal Vendor; and  
(b) Imperium Credit Limited, as the Disposal Purchaser

The Disposal Vendor is a money lender licensed in Hong Kong and a wholly-owned subsidiary of the Company.

The Disposal Purchaser is a money lender licensed in Hong Kong and is ultimately wholly owned by Mr. Cheng, the chairman, an executive Director and a controlling Shareholder.

#### A. *Assets to be disposed of*

Pursuant to the Disposal Agreement, the Disposal Vendor has conditionally agreed to sell the Sale Interest and the Disposal Purchaser has conditionally agreed to acquire the Sale Interest.

The Sale Interest represents all the rights, title, benefits and interests of the Disposal Vendor to, in and under (i) the Loan Agreement (including but not limited to the Sale Loan and all the security created thereunder); and (ii) the Litigation.

The security created under the Loan Agreement is an equitable mortgage over all monies, deposit(s), equity(ies) or any other assets under a securities trading account maintained with Sun International Securities Limited under the name of the Borrower (the “**Borrower’s Securities Account**”). As at the Latest Practicable Date, the only asset in the Borrower’s Securities Account is 25,600,000 shares of a company (the “**Charged Company**”), the issued shares of which are listed on

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the main board of the Stock Exchange. Based on the public announcements issued by the Charged Company, (i) trading of the shares of the Charged Company on the Stock Exchange has been halted with effect from July 2018; (ii) the Charged Company is put in provisional liquidation in August 2018 and joint provisional liquidators have been appointed.

As disclosed in the announcement of the Company dated 13 August 2018, the Disposal Vendor has commenced the Litigation by issuing a writ of summons against the Borrower for, among other things, the Sale Loan (including but not limited to the outstanding principal amount of HK\$30,000,000 and the outstanding interest accrued thereon of HK\$1,998,318 as at 2 August 2018, being the interest reference date referred to in the writ of summons commencing the Litigation).

As at the date of the Disposal Agreement, the book value of the Sale Loan amounted to HK\$32,145,989, being the outstanding principal amount of the Sale Loan and the outstanding interest accrued thereon up to 9 August 2018, being the date immediately prior to the issue of the writ of summons commencing the Litigation.

Further monthly interest payments accruing at contractual interest rate of 36% per annum on the outstanding principal amount of HK\$30,000,000 and the outstanding interest accrued thereon (which was HK\$1,998,318 as at 2 August 2018) from 3 August 2018 and until payment (the “**Foregone Interest**”) was excluded in the book value of the Sale Loan after having considered the following factors:

- (i) the ability of the Borrower to repay the loan and the outstanding interest accrued under the Loan Agreement is in doubt, and in fact, the Borrower failed to make monthly interest payment since June 2018 and did not respond to the demand for repayment from the Disposal Vendor;
- (ii) after having received an indication from the Borrower of his inability to repay the loan and the outstanding interest accrued under the Loan Agreement, the Disposal Vendor commenced the Litigation against the Borrower for, among other things, the Sale Loan, on 10 August 2019; and
- (iii) in light of the events set out in paragraphs (i) and (ii) above, the Group considers that the possibility to recover the full amount of the outstanding principal amount of the Sale Loan and the outstanding interest accrued thereon up to 9 August 2018 is remote.

Upon Disposal Completion, the Company will cease to pursue the Litigation and the Disposal Purchaser may make an application to the High Court of Hong Kong to substitute the Disposal Vendor as the plaintiff in the Litigation.

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### ***B. Background of, reasons for and benefits of the Disposal***

Money lending is one of the ordinary course of businesses of the Group. The Loan Agreement was entered into between the Disposal Vendor and the Borrower (who is an Independent Third Party) on 8 June 2017 under which the Disposal Vendor agreed to provide the loan facility of HK\$30,000,000 to the Borrower for a fixed term of six months from the date of drawdown (with six months renewable subject to the consent of the Disposal Vendor) at an interest rate of 28% per annum. According to the information provided by the Management, the loan facility of HK\$30,000,000 was drawn on 8 June 2017 and the Borrower made monthly interest payment for 11 consecutive months till May 2018. Since June 2018, the Borrower failed to pay monthly interest payment and did not response to the demand for interest and principal from the Group.

After receiving an indication from the Borrower of his inability to repay the outstanding debt, the Management decided to commence the Litigation. We concur with the view of the Management that it is time consuming to proceed with the Litigation and the ability to recover the Sale Loan is uncertain. Having considered the facts that (i) the only asset in the Borrower's Securities Account is 25,600,000 shares of the Charged Company which had no market value as at the date of the Disposal Agreement given that trading of the shares of the Charged Company on the Stock Exchange has been halted with effect from July 2018 and the Charged Company is put in provisional liquidation in August 2018; (ii) the Disposal could enable the Group to recover the Sale Loan within a foreseeable timeframe, thereby eliminating the uncertainty and the credit risks associated with the Sale Loan; (iii) the Consideration represents the outstanding principal amount of the Sale Loan of HK\$30,000,000 and the outstanding interest accrued thereon of HK\$1,998,318 as at 2 August 2018; and (iv) the set-off arrangement of the Consideration with the Promissory Notes (as described below) would lower the gearing ratio of the Group, we are of the view that the entering into of the Disposal Agreement is in the best interests of the Group and the Independent Shareholders as a whole.

### ***C. Consideration***

The Consideration for the sale and purchase of the Sale Interest is HK\$31,998,318, which is equivalent to the outstanding principal amount of the Sale Loan and the outstanding interest accrued thereon as at 2 August 2018.

At Disposal Completion, the Disposal Vendor, the Disposal Purchaser, the Company, Chau's Holdings, Cheng Family Investment Holdings, the Subscriber and the PN Holders shall enter into the Deed of Consideration Settlement, pursuant to which, among others, the whole amount of the Consideration payable by the Disposal Purchaser shall be set off against part of the principal amount of the Promissory Note 4 in the amount of HK\$7,977,386.44, and the outstanding interest accrued up to 31 December 2018 of the Promissory Note 2 in the amount of HK\$9,127,954, the outstanding interest accrued up to 31 December 2018 of the Promissory Note 3 in the amount of HK\$13,932,140.28 and the outstanding interest accrued up to 31 December 2018 of the Promissory Note 4 in the amount of HK\$960,837.28.

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According to the Letter from the Board, the Consideration, which is equivalent to the outstanding principal of HK\$30,000,000 and the outstanding interest accrued thereon of HK\$1,998,318 as at 2 August 2018 but without taking into account the Foregone Interest, was arrived at after arm's length negotiations between the Disposal Purchaser and the Disposal Vendor having considered the following factors: (i) since June 2018, the Borrower failed to make monthly interest payment and did not respond to the demand for repayment from the Disposal Vendor; (ii) the indication from the Borrower of his inability to repay the loan and the outstanding interest accrued under the Loan Agreement; (iii) notwithstanding the commencement of the Litigation on 10 August 2018, the Borrower has not repaid the outstanding amount under the Loan Agreement to the Disposal Vendor as at the date of the Announcement; (iv) the considerable amount of time and financial resources required to proceed with the Litigation and the uncertainties involved in the outcome of the Litigation; (v) the ability of the Borrower to repay the loan and the outstanding accrued interest under the Loan Agreement is in doubt; (vi) in light of the aforementioned factors, the possibility to recover the full amount of the loan and the outstanding interest accrued under the Loan Agreement is remote; and (vii) the amount of interest accrued or to be accrued on the Promissory Notes which is agreed to be waived.

As at the date of the Disposal Agreement, the book value of the Sale Loan amounted to HK\$32,145,989. The difference between the Consideration and the book value of the Sale Loan (i.e. HK\$147,671) represents the interest accrued from 3 August 2018 up to 9 August 2018, being the date immediately prior to the issue of the writ of summons commencing the Litigation. Given that (i) the Consideration was determined by the Disposal Purchaser and the Disposal Vendor with reference to the sum of the outstanding principal amount of the Sale Loan and the interest accrued thereon up to the interest reference date referred to in the writ of summons commencing the Litigation (i.e. 2 August 2018); (ii) the Consideration represents approximately 99.5% of the book value of the Sale Loan and the difference of HK\$147,671 is a minimal amount compared with the amount of the Sale Loan; (iii) the ability to recover the Sale Loan is uncertain; and (iv) the only asset in the Borrower's Securities Account had no market value as at the date of the Disposal Agreement, we are of the view that the Consideration is fair and reasonable to the Company and the Independent Shareholders as a whole.

#### **4. The Share Sale Agreement**

##### ***A. Information of the Target Company***

According to the Letter from the Board, the Target Company is a company incorporated in Australia with limited liability, and is an indirect wholly-owned subsidiary of the Company immediately prior to Share Sale Completion. The Target Company is principally engaged in the provision of equine services including pre-training and trading of thoroughbred horses in Australia.

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The principal assets of the Target Company is the bloodstocks located in Australia. As at 31 December 2018, the Target Company had 114 bloodstocks, breakdown of which is set out in the following table:

*Table 3: Bloodstocks owned by the Target Company*

	<b>Number of bloodstocks as at 31 December 2018</b>
<b>Mare (i.e. adult female horse)</b>	<b>45</b>
– <i>Broodmare</i>	45
<b>Filly (i.e. female horse under the age of four years)</b>	<b>31</b>
– <i>Racehorse</i>	4
– <i>Foal or weanling</i>	27
<b>Colt (i.e. male horse under the age of four years which has not been gelded)</b>	<b>38</b>
– <i>Racehorse</i>	1
– <i>Yearling</i>	4
– <i>Foal or weanling</i>	33
<b>Total:</b>	<b>114</b>

The following table sets out the audited financial information of the Target Company for FY2015-16, FY2016-17 and FY2017-18 (prepared in accordance with Australian Accounting Standards and Accounting Interpretation) as extracted from the audited financial reports of the Target Company for FY2016-17 and FY2017-18, respectively:

*Table 4: Financial information of the Target Company*

	<b>FY2015-16</b>	<b>FY2016-17</b>	<b>FY2017-18</b>
	<i>AUD</i>	<i>AUD</i>	<i>AUD</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Revenue and other income	9,325,657	6,064,111	12,588,349
– <i>Sales revenue</i>	5,170,792	3,019,294	7,704,656
– <i>Other revenue and income</i>	4,154,865	3,044,817	4,883,693
(Loss) before taxation	(5,475,629)	(5,504,683)	(2,478,392)
(Loss) after taxation	(5,475,629)	(5,504,683)	(2,478,392)

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	As at 31 March <b>2016</b> <i>AUD</i> <i>(audited)</i>	As at 31 March <b>2017</b> <i>AUD</i> <i>(audited)</i>	As at 31 March <b>2018</b> <i>AUD</i> <i>(audited)</i>
Non-current assets	2,387,526	2,429,526	2,885,124
Current assets	23,313,861	20,946,717	17,660,047
Current (liabilities)	(2,012,791)	(1,220,346)	(376,674)
Net current assets	21,301,070	19,726,371	17,283,373
Non-current (liabilities)	(33,096,881)	(37,068,865)	(37,559,857)
Equity attributable to owners of the Target Company	(9,408,285)	(14,912,968)	(17,391,360)

Revenue and other income of the Target Company was mainly generated from the sales of thoroughbred horses and the fair value gain on biological assets (i.e. the bloodstocks). Revenue and other income of the Target Company decreased from approximately AUD9.3 million for FY2015-16 to approximately AUD6.1 million for FY2016-17, and bounced back to approximately AUD12.6 million for FY2017-18. Notwithstanding the rebound in the revenue and other income, the Target Company recorded continual loss of approximately AUD5.5 million, approximately AUD5.5 million and approximately AUD2.5 million, respectively, for FY2015-16, FY2016-17 and FY2017-18. The continual loss for the past few years was mainly due to the exceptionally high operating cost, which represented, in average, 128.9% of the Target Company's revenue for the respective year.

As at 31 March 2018, the Target Company's total assets and total liabilities amounted to approximately AUD20.5 million and approximately AUD37.9 million, respectively, resulting in a net liabilities position of approximately AUD17.4 million as compared to a net liabilities position of approximately AUD14.9 million as at 31 March 2017. Such deterioration was principally due to the net loss recorded by the Target Company of approximately AUD2.5 million for FY2017-18. As stated in the audited financial reports of the Target Company, the financial statements of the Target Company for FY2017-18 have been prepared on a going concern basis (the "Going Concern Issue") having considered that the Target Company had a loss from ordinary activities of approximately AUD2.5 million for FY2017-18 (FY2016-17: loss of approximately AUD5.5 million) and as at 31 March 2018, the Target Company's total liabilities exceeded total assets by approximately AUD17.4 million (FY2016-17: total liabilities exceeded assets by approximately AUD14.9 million). In fact, the Going Concern Issue has first arisen in the audited financial statements of the Target Company for the year ended 31 March 2014.

According to the unaudited management account of the Target Company for the nine months ended 31 December 2018, the Target Company recorded unaudited net liabilities of approximately AUD1,009,031 (equivalent to approximately HK\$5,690,935).

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### *B. Background of, reasons for and benefits of the Share Sale*

In August 2013, the Group completed the purchase of one of Australia's largest stud farms, Eliza Park (which was subsequently renamed as Sun Stud), in offering its clientele a total range of thoroughbred related services, including breeding, rearing, sales, agistment, spelling, education, administration, advice and training. Since then, the Group established certain subsidiaries (including the Target Company) to support the development of its equine business. Since its establishment, the Target Company has been principally engaged in the provision of equine services including pre-training and trading of thoroughbred horses in Australia.

Nevertheless, the financial performance of the Target Company was unsatisfactory. As mentioned in the paragraph headed "A. Information of the Target Company" under the section headed "4. The Share Sale Agreement" above, the Target Company recorded continual loss for the last three financial years with an average net loss of approximately AUD4.5 million. We have further studied the profit and loss statements of the Target Company for the last three financial years ended 31 March 2018, and noted that such net loss were mainly derived from the business operations of the Target Company, rather than loss generated by activities outside the ordinary and usual course of business of the Target Company. Without taking into account the fair value gain on the biological assets and other income/loss generated by activities outside the ordinary and usual course of business of the Target Company (including interest received and income/loss generated from exchange difference), the average net loss of the Target Company for the last three financial years would even increase to approximately AUD7.5 million. The continual loss of the Target Company subsequently deteriorated the financial position of the Target Company, leading to the net liabilities position of approximately AUD17.4 million as at 31 March 2018, and thus revealing the Going Concern Issue. According to the unaudited management account of the Target Company for the nine months ended 31 December 2018, the Target Company recorded unaudited net liabilities of approximately AUD1,009,031 (equivalent to approximately HK\$5,690,935). We have discussed with the Management regarding the business prospect of the Target Company and were given to understand that the Company has no intention to change the development strategy of the Target Company and/or inject new business into the Target Company. Taking into account the facts that (i) the Target Company recorded continual loss for the last three financial years with an average net loss of approximately AUD4.5 million, and such loss were mainly derived from the business operations of the Target Company; (ii) the Target Company recorded unaudited net liabilities of approximately AUD1,009,031 (equivalent to approximately HK\$5,690,935) as at 31 December 2018; and (iii) the Company has no intention to change the development strategy of the Target Company and/or inject new business into the Target Company, we believe that it is unlikely that there will be a significant improvement on the business and financial performance of the Target Company in the near future which will lead to a turnaround from a loss-making position to a profit-making position, and that the Going Concern Issue will remain outstanding in the near future. Accordingly, we concur with the Directors' view that the Share Sale provides the Group an opportunity to divest its investment in the Target Company at a reasonable price (please refer to our analysis on the Purchase Price as set out in the paragraph headed "C. Principal terms of the Share Sale Agreement" under the section headed "4. The Share Sale Agreement" below) and allocate more resources to the Group's other existing business (including the equine business currently operated by Sun Stud) and any other potential business should the opportunity arise.



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Furthermore, in order to support the operation of the Target Company, the Company has from time to time been contributing substantial funds to the Target Company. As at the Latest Practicable Date, the Target Company was indebted to the Company in the amount of AUD14,440,995.06 (equivalent to approximately HK\$81,447,212.13), being the Sun Kingdom Loan. Based on the historical financial performance and position of the Target Company, it is believed that the Sun Kingdom Loan could not be fully repaid by the Target Company to the Company in near future. Being part and parcel of the Share Sale, the Share Sale Purchaser agreed to procure the repayment of the Sun Kingdom Loan by setting off against part of the principal amount of the Promissory Note 2 in the amount of HK\$81,447,212.13 (equivalent to approximately AUD14,440,995.06, being the amount of the Sun Kingdom Loan). The Directors consider that the set-off arrangement of the Sun Kingdom Loan against part of the principal amount of the Promissory Note 2 can, on one hand, allow the Company to recover the Sun Kingdom Loan and, on the other hand, lower the gearing ratio of the Group by setting off part of the principal amount of the Promissory Note 2 in the amount of HK\$81,447,212.13.

According to the Letter from the Board, immediately after the Share Sale Completion, the following assets in relation to equine services business will remain in the Group (excluding the Target Company): (i) a piece and parcel of land with a site area of 425.2 acres located at 56 and 146 Mt Eliza Road, Riddells Creek, Victoria, Australia, including all improvements and fixtures; (ii) the plant and equipment; (iii) the interests in 11 stallions; (iv) the permits and licences; (v) the inventory; and (vi) the leases on 2 leased properties. After Share Sale Completion, the Group (through Sun Stud, a wholly-owned subsidiary of the Company) will continue to engaged in the provision of horse racing related services, including but not limited to breeding, rearing, sales, agistment, spelling, education, administration and advice of horses.

Having considered the facts that (i) the continual loss-making position and net liabilities position of the Target Company; (ii) it is expected that the Going Concern Issue will remain outstanding in the near future unless there is a significant improvement on the business and financial performance of the Target Company; (iii) the Share Sale provides the Group an opportunity to divest its investment in the Target Company at a reasonable price and allocate more resources to the Group's other existing business (including the equine business currently operated by Sun Stud) and any other potential business should the opportunity arise; (iv) the set-off arrangement of the Sun Kingdom Loan against part of the principal amount of the Promissory Note 2 can, on one hand, allow the Company to recover the Sun Kingdom Loan and, on the other hand, lower the gearing ratio of the Company by setting off part of the principal amount of the Promissory Note 2 in the amount of HK\$81,447,212.13; and (v) the terms of the Share Sale Agreement (including the Purchase Price) are fair and reasonable (please refer to the paragraph headed "C. Principal terms of the Share Sale Agreement" under the section headed "4. The Share Sale Agreement" below for our further analysis), we are of the view that the Share Sale is in the interests of the Company and the Independent Shareholders as a whole.

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### C. *Principal terms of the Share Sale Agreement*

The principal terms of the Share Sale Agreement are set out below:

**Date:** 14 February 2019 (as amended and supplemented by a deed of amendment dated 28 March 2019)

**Parties:**

- (a) Sun Macro Limited, as the Share Sale Vendor;
- (b) Prestige Summit Investments Limited, as the Share Sale Purchaser;  
and
- (c) Sun Kingdom Pty Ltd, as the Target Company

The Share Sale Vendor is a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company.

The Share Sale Purchaser is a company incorporated in the British Virgin Islands with limited liability and is principally engaged in investment holding, the entire issued share capital of which is ultimately owned by Mr. Cheng, the chairman, an executive Director and a controlling Shareholder.

**Assets to be disposed of** Pursuant to the Share Sale Agreement, the Share Sale Vendor has conditionally agreed to sell the Sale Shares and the Share Sale Purchaser has conditionally agreed to acquire the Sale Shares. The Sale Shares represent the entire issued share capital of the Target Company.

(i) *Initial Purchase Price*

Pursuant to the Share Sale Agreement, the Share Sale Purchaser shall pay AUD1 (the “**Initial Purchase Price**”) at Share Sale Completion for the sale and purchase of the Sale Shares to the Share Sale Vendor as the completion payment. Following Share Sale Completion, the Target Company, the Share Sale Purchaser, the Company, Cheng Family Investment Holdings and the PN Holder 2 shall enter into the Deed of Set-off, pursuant to which, among others, the whole amount of the Sun Kingdom Loan owed by the Target Company to the Company shall be set off against part of the principal amount of the Promissory Note 2 in the amount of HK\$81,447,212.13 (equivalent to approximately AUD14,440,995.06, being the amount of the Sun Kingdom Loan).

As mentioned in the Letter from the Board, the Initial Purchase Price was arrived at after arm’s length negotiations between the Share Sale Purchaser and the Share Sale Vendor having considered the facts that (i) the unaudited net liabilities of the Target Company were approximately AUD1,009,031 (equivalent to approximately HK\$5,690,935) as at 31 December

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2018 and the net liabilities position of the Target Company is expected to continue at Share Sale Completion; (ii) the whole amount of the Sun Kingdom Loan will be set off against part of the principal amount of the Promissory Note 2 in the amount of HK\$81,447,212.13; (iii) the audited net loss of the Target Company of approximately AUD5,504,683 (equivalent to approximately HK\$31,046,000) in FY2016-17 and approximately AUD2,478,392 (equivalent to approximately HK\$13,978,000) in FY2017-18; (iv) the Group is not optimistic on the future prospects of Sun Kingdom and its operation has been scaled down; and (v) the Share Sale would reduce the operation costs and working capital burden of the Group.

Taking into account the facts that (i) the Initial Purchase Price was determined at a nominal value of AUD1 in view of the net liabilities position of the Target Company of AUD1,009,031 (equivalent to approximately HK\$5,690,935) as at 31 December 2018; (ii) the financial performance of the Target Company was unsatisfactory in the recent years and the Going Concern Issue has arisen since the financial year ended 31 March 2014 (please refer to our analysis as detailed in the paragraph headed “A. Information of the Target Company” under the section headed “4. The Share Sale Agreement” above); (iii) the set-off arrangement of the Sun Kingdom Loan against part of the principal amount of the Promissory Note 2 can, on one hand, allow the Company to recover the Sun Kingdom Loan and, on the other hand, lower the gearing ratio of the Company by setting off part of the principal amount of the Promissory Note 2 in the amount of HK\$81,447,212.13; and (iv) the Adjustment Mechanism (as defined below) is well in place so as to further safeguard the interest of the Company (please refer to our analysis as detailed in the sub-paragraph headed “(ii) Adjustment Mechanism” below), we are of the view that the Initial Purchase Price is fair and reasonable, and is in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole.

*(ii) Adjustment Mechanism*

Pursuant to the Share Sale Agreement, as soon as practicable following Share Sale Completion, a balance sheet of the Target Company (the “**Completion Balance Sheet**”) as at Share Sale Completion will be prepared. The actual purchase price (the “**Purchase Price**”) will be determined as follows:

- (a) if the net asset position of the Target Company (the “**Completion NAV**”) as shown in the Completion Balance Sheet is a positive number, the Purchase Price for the Sale Shares will be an amount equal to the positive Completion NAV and the difference between the Purchase Price and AUD1 paid shall be payable by the Share Sale Purchaser to the Share Sale Vendor within ten (10) Business Days after the Purchase Price is determined; or
- (b) if the Completion NAV is zero or a negative number, the Purchase Price for the Sale Shares will be fixed at AUD1.

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As at 31 December 2018, the Target Company has net liabilities of AUD1,009,031 (equivalent to approximately HK\$5,690,935). It is expected that the net liabilities position of the Target Company will continue as at Share Sale Completion and the Purchase Price will be AUD1 (the “**Adjustment Mechanism**”).

Having considered the facts that (i) the Initial Purchase Price of AUD1 was determined with reference to the unaudited net liabilities of the Target Company of approximately AUD1,009,031 (equivalent to approximately HK\$5,690,935) as at 31 December 2018; (ii) the set-off arrangement of the Sun Kingdom Loan against part of the principal amount of the Promissory Note 2 can, on one hand, allow the Company to recover the Sun Kingdom Loan and, on the other hand, lower the gearing ratio of the Company by setting off part of the principal amount of the Promissory Note 2 in the amount of HK\$81,447,212.13; and (iii) under the Adjustment Mechanism, the Purchase Price will be adjusted to the Completion NAV should the Completion NAV be a positive number, we consider that the Adjustment Mechanism can further safeguard the interest of the Company and is, therefore, in the interests of the Company and the Shareholders as a whole.

*(iii) Conclusion*

Having considered the above, we are of the view that the terms of the Share Sale Agreement are on normal commercial terms, and are fair and reasonable so far as the Independent Shareholders are concerned.

### 5. The Master Service Agreement

*A. Background of, reasons for, and benefits of the entering into of the Master Service Agreement*

Sun Stud is a company incorporated in Australia with limited liability and a wholly-owned subsidiary of the Group. It is a thoroughbred stud farm based in the Australian state of Victoria and providing horse racing related services, including but not limited to breeding, rearing, sales, agistment, spelling, education, administration, advice and training of horses.

The Sun Stud Group has been providing the Services to bloodstocks owned by the Group (including bloodstocks owned by the Target Company) and Sun Bloodstock, a company wholly-owned by Mr. Cheng. Services provided to Sun Bloodstock commenced from 2017 after the entering into of the master service agreement (the “**2017 Master Service Agreement**”) between Sun Stud and Sun Bloodstock for the three years ending 30 September 2019, which constituted continuing connected transactions for the Company under Chapter 20 of the GEM Listing Rules. Details of the 2017 Master Service Agreement are set out in the announcement of the Company dated 6 June 2017.

Upon the Share Sale Completion, the Target Company will cease to be the subsidiary of the Company. It is the intention of the Share Sale Purchaser (being the beneficial owner of the Target Company upon Share Sale Completion) that the Target Company will continue to rely on the Services to be provided by Sun Stud. According to the terms of the Share Sale Agreement,

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upon Share Sale Completion, Sun Stud and the Target Company will enter into the Master Service Agreement, pursuant to which the Sun Stud Group will agree to provide the Services to the Target Company and/or its Affiliates (including but not limited to Sun Bloodstock) for a term commencing from the Share Sale Completion Date and ending on 31 March 2022 (both days inclusive). It is expected that upon Share Sale Completion, all the horse racing related services will be provided by Sun Stud Group to the Target Company and/or its Affiliates (including but not limited to Sun Bloodstock) under the Master Service Agreement.

Having considered the facts that (i) Sun Bloodstock and the Target Company are the major customers of Sun Stud; (ii) the Target Company will cease to be the subsidiary of the Company upon Share Sale Completion; (iii) it is expected that the Target Company will continue to rely on the Services to be provided by Sun Stud Group upon Share Sale Completion; and (iv) the terms of the Master Service Agreement are fair and reasonable and on normal commercial terms (please refer to our analysis as set out in the paragraph headed “B. Principal terms of the Master Service Agreement” below), we concur with the Directors’ view that the continuing connected transactions contemplated under the Master Service Agreement are in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole.

### ***B. Principal terms of the Master Service Agreement***

The principal terms of the Master Service Agreement, which will be entered into between Sun Stud and the Target Company upon Share Sale Completion, are set out below:

- Parties:**
- (a) Sun Stud, as the service provider; and
  - (b) Sun Kingdom Pty Ltd, as the customer

**Subject matter:** Subject to the terms of Master Service Agreement, the Target Company agrees to engage Sun Stud or any member of the Sun Stud Group for the provision of horse racing related services, including but not limited to breeding, rearing, sales, agistment, spelling, education, administration, advice and training of horses to be provided by Sun Stud to the Target Company and/or its Affiliates (including but not limited to Sun Bloodstock) and/or such other services as shall be agreed by the parties thereto in writing from time to time.

For the avoidance of doubt, Sun Stud shall have the absolute discretion to determine whether to provide any Services and the Master Service Agreement shall not restrict or limit the Sun Stud Group to provide similar services to any third parties.

**Term:** The term shall be commencing from the Share Sale Completion Date and ending on 31 March 2022 (both days inclusive) unless terminated in accordance with the Master Service Agreement.

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In assessing the fairness and reasonableness of the terms of the Master Service Agreement, we have reviewed and compared the terms of the 2017 Master Service Agreement and the Master Service Agreement, and noted that the major difference between the agreements is the inclusion of the Target Company in the list of service receiving party. Apart from the aforesaid, all other major terms of the 2017 Master Service Agreement remain unchanged and in full force and effect.

We have further discussed with the Management regarding the Master Service Agreement (including but not limited to the pricing policy), and were advised that the actual fee to be paid by the Target Company and/or its Affiliates (including but not limited to Sun Bloodstock) and charged by Sun Stud shall be subject to further arm's length negotiations and shall be set out in the individual contracts to be entered into between Sun Stud or member(s) of the Sun Stud Group and the Target Company and/or its Affiliates (including but not limited to Sun Bloodstock), provided that such fee charged by the Sun Stud Group for the Services shall be at a reasonable commercial rate equivalent to (or more favourable to the Sun Stud Group than) the fees charged by Sun Stud when providing similar services to independent third parties. We were further advised by the Management that the Group has designed and implemented, and will continue to implement upon Share Sale Completion, a series of internal control procedures (the "**Internal Control Procedures**") in respect of the continuing connected transactions contemplated under the 2017 Master Service Agreement and the Master Service Agreement. Details of which were summarized as below:

- (i) the Company will assign the operation manager of the Company to supervise the continuing connected transactions and review and assess whether the continuing connected transactions contemplated under the Master Service Agreement are on normal commercial terms, fair and reasonable and conducted in accordance with the terms of the Master Service Agreement and will also regularly update the market price for the purpose of considering if the Services fees charged for a specific transaction are on normal commercial terms, fair and reasonable and in accordance with the aforesaid pricing policy;
- (ii) the operation manager of the Company will review all the Services fees rates and pricing of the continuing connected transactions under the Master Service Agreement against the prevailing market price charged by certain potential competitors of Sun Stud (which provide similar service with comparable operation scale and have facilities located in the proximity of the facilities of Sun Stud, the "**Potential Competitors**") (the "**Review on Pricing Terms**") in every six months to ensure that the pricing terms of the continuing connected transactions under the Master Service Agreement are comparable to those of the Potential Competitors for similar services, and are on normal commercial terms;
- (iii) the Company's external auditors will conduct an annual review on the pricing and the annual cap of the continuing connected transactions under the Master Service Agreement;

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- (iv) the Company's audit committee will review the analysis report and the improvement measures prepared by the management of the Company in relation to the continuing connected transactions under the Master Service Agreement; and
- (v) the independent non-executive Directors will conduct an annual review of the implementation of the continuing connected transactions under the Master Service Agreement.

Given that (i) the peculiar nature of the equine industry; and (ii) based on the pricing information available to public, each of the Potential Competitors had only made one price increment on their service fee during the past two years, we consider that the Review on Pricing Terms on a semi-annual basis is sufficient to ensure that the pricing terms of the continuing connected transactions under the Master Service Agreement are comparable to those of the Potential Competitors for the similar services and on normal commercial terms. Besides, as advised by the Management, before the provision of the Services by the Sun Stud Group to the Target Company and/or its Affiliates, the operation manager of the Company will review the prevailing fees charged by Sun Stud when providing similar services to independent third parties to ensure that the Services fees shall be equivalent to (or more favourable to the Sun Stud Group than) the fees charged on independent third parties. Upon review of the Internal Control Procedures and our discussion with the Management, we concur with the view of the Management that the implementation of the Internal Control Procedures can ensure that the Service fees charged by Sun Stud to the Target Company and/or its Affiliates (including but not limited to Sun Bloodstock) (i) are on normal commercial terms; (ii) shall be no less favorable to the Group than those charged to other customers of the Sun Stud Group who are independent third parties; and (iii) are in accordance with the pricing policy of the Group from time to time.

Furthermore, we have obtained and reviewed the walk-through documents of all the transactions with the respective top 10 customers of Sun Stud for the two years ended 31 March 2019 (including, where available and applicable, (i) remittance advice issued by Sun Stud to (a) independent third parties; and (b) connected persons (including but not limited to the Target Company and Sun Bloodstock), listing out the details of the Services provided by Sun Stud and the relevant services fee; (ii) the relevant payment records; and (iii) the Group's internal assessment records in respect of the Internal Control Procedures) (the "**Walk-through Documents**") provided by the Sun Stud Group in respect of the Services provided by the Sun Stud Group to the Target Company and its Affiliates (including Sun Bloodstock). Given that the aggregate transaction amounts for the transactions with the top 10 customers of Sun Stud represented over 30% of the total revenue of Sun Stud for the respective years ended 31 March 2018 and 31 March 2019, we consider that the sample size of the Walk-through Documents is sufficient. Based on our review on the Walk-through Documents, we noted that (i) the service fees charged by the Sun Stud Group to the Target Company and its Affiliates (including Sun Bloodstock) shall be no less favorable to the Group than those charged to other customers of the Sun Stud Group who are independent third parties; and (ii) the transactions under the 2017 Master Service Agreement were carried out in accordance with the Internal Control Procedures. We are of the view that the pricing policy and mechanism in respect of the Services provided by the Sun Stud Group to the Target Company and its Affiliates (including Sun Bloodstock) has been well in place, and the interests of the Company and the Shareholders are properly safeguarded.

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In addition, we noted from the Letter from the Board that the Company has further enhanced the Internal Control Procedures that the review results prepared by the operation manager of the Company will be submitted to the chief financial officer of the Company for final approval (the “**Enhanced Internal Control Procedures**”). Given that (i) the transactions under the 2017 Master Service Agreement were carried out in accordance with the Internal Control Procedures; and (ii) the Enhanced Internal Control Procedures will be adopted by the Group upon Share Sale Completion, we are of the view that the interests of the Company and the Independent Shareholders will be safeguarded.

In view of the above, we consider that the terms of the Master Service Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

### *C. Annual caps for the Master Service Agreement*

According to the information provided by the Management, the aggregate historical transaction amounts received by the Sun Stud Group from (i) Sun Bloodstock and/or its Affiliates under the 2017 Master Service Agreement and (ii) the Target Company in relation to the provision of the Services for FY2016-17, FY2017-18 and 9M2018 are set out below:

	<b>FY2016-17</b>	<b>FY2017-18</b>	<b>9M2018</b>
	<i>AUD</i>	<i>AUD</i>	<i>AUD</i>
Historical transaction amounts	2,839,000	2,716,000	2,162,000

The proposed annual caps for the three years ending 31 March 2020 (“**FY2019-20**”), 31 March 2021 (“**FY2020-21**”) and 31 March 2022 (“**FY2021-22**”) for the Master Service Agreement (which includes the service fees paid under the 2017 Master Service Agreement) are set out below:

	<b>FY2019-20</b>	<b>FY2020-21</b>	<b>FY2021-22</b>
	<i>AUD</i>	<i>AUD</i>	<i>AUD</i>
Annual caps	3,000,000	3,100,000	3,200,000

According to the Letter from the Board, the proposed annual caps for FY2019-20, FY2020-21 and FY2021-22 for the Master Service Agreement are determined based on (i) the aggregate historical transaction amounts received by the Sun Stud Group from Sun Bloodstock and/or its Affiliates and the Target Company as set out above; (ii) the anticipated increased demand for the Services after Share Sale Completion; and (iii) the anticipated fee scale for the Services during FY2019-20, FY2020-21 and FY2021-22.

We noted that the historical transaction amount for the Services in FY2016-17 and FY2017-18 were roughly AUD2.8 million. The annual caps for each of FY2019-20 (the “**2020 Annual Cap**”), FY2020-21 (the “**2021 Annual Cap**”) and FY2021-22 (the “**2022 Annual Cap**”) represent an increment of approximately 7.1% (or AUD200,000), approximately 3.3%



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(or AUD100,000) and approximately 3.2% (or AUD100,000) to each of the respective historical transaction amount or proposed annual cap for the preceding year. Given that historical transaction amount for the Services in FY2016-17 and FY2017-18 were relatively stable, we are of the view that the determination of the 2020 Annual Cap, 2021 Annual and 2022 Annual Cap which bears an increment of less than 5% so as to cater for the anticipation of increased demand for the Services and the increase in fee scale is under reasonable ground and due care, and that the 2020 Annual Cap, 2021 Annual and 2022 Annual Cap are justifiable, fair and reasonable so far as the Company and the Independent Shareholders are concerned.

### 6. The Subscription Agreement

#### A. *Reasons for the Subscription*

The financial position of the Group was disappointing. Since 2017, the Group has recorded net liabilities and such scenario deteriorated further year by year. As at 31 March 2017, 31 March 2018 and 30 September 2018, the net liabilities of the Group were approximately HK\$8.1 million, approximately HK\$73.2 million and approximately HK\$101.6 million, respectively. As at 30 September 2018, indebtedness of the Group amounted to approximately HK\$679.8 million, including (i) amount due to related companies of approximately HK\$122.7 million (including the Sun Finance Loan in the principal amount of approximately HK\$118.98 million which is repayable on demand); (ii) the Promissory Note 1 of approximately HK\$128.6 million carrying interest of 2% per annum and due on 28 February 2019 (which has subsequently been extended to 30 June 2019 pursuant to the Extension Letters); (iii) the Promissory Note 2, the Promissory Note 3 and the Promissory Note 4 in the aggregate amount of approximately HK\$373.5 million carrying interest of 7% per annum and due on 31 January 2021; (iv) medium-term bonds held by independent third parties of approximately HK\$35.0 million carrying interest at 7% per annum and due during the period from January 2020 to November 2020; (v) interest bearing borrowings of HK\$10.0 million carrying interest at 8% per annum and due in February 2019; and (vi) interest bearing borrowings of HK\$10.0 million carrying interest at 8.5% per annum and due in May 2020. However, the total assets of the Group excluding cash held on behalf of customers as at 30 September 2018 amounted to only approximately HK\$632.5 million.

The financial performance of the Group was also unsatisfactory. The Group recorded continual loss since the financial year ended 31 March 2013 (“FY2012-13”) but the loss making position exhibited a diminishing trend from approximately HK\$534.8 million in FY2012-13, approximately HK\$554.0 million for the year ended 31 March 2014, approximately HK\$403.9 million for the year ended 31 March 2015, approximately HK\$125.6 million in FY2015-16, approximately HK\$85.9 million in FY2016-17 to approximately HK\$63.5 million in FY2017-18.

As discussed in the section headed “2. Financial information of the Group” above, Andes Glacier had stated the material uncertainty related to going concern of the Group in the independent auditor’s report contained in the 2017-18 Annual Report. Andes Glacier also stated that the validity of the going concern assumption is dependent on the successful and favourable outcomes of the measures being taken by the management of the Group and the financial support from significant shareholder of the Company.

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In view of the above, the Directors consider that the Group has an imminent need to arrange a sizable fund raising exercise in order to strengthen the financial position of the Group to prepare for its future development. As disclosed in the Letter from the Board, with a view to alleviate the net liabilities position, net loss position and going concern issue of the Company, each of (a) Mr. Chau, being a controlling Shareholder and the beneficial owner of the entire issued share capital of Chau's Holdings and 50% of the entire issued share capital of the PN Holder 1 and the Subscriber; and (b) Mr. Cheng (together with his associate(s)), being a controlling Shareholder and the owner of the entire issued share capital of Cheng Family Investment Holdings, the PN Holder 2, the PN Holder 3 and the PN Holder 4, and the beneficial owner of 50% of the entire issued share capital of the PN Holder 1 and the Subscriber, is willing to (a) subscribe the Subscription Shares through the Subscriber at the Subscription Price by setting off against (i) the entire principal amount of the Sun Finance Loan; and (ii) the relevant principal amount and the outstanding interest accrued up to 31 December 2018 of the Promissory Notes; and (b) waive the interest accrued and to be accrued on the Promissory Notes from 1 January 2019 to the date of Subscription Completion or 31 January 2023 (as the case may be).

The Directors consider that the Subscription offers a good opportunity for the Group to ease the liquidity pressure of the Group caused by the imminent due date of the Promissory Note 1 in February 2019 (which has subsequently been extended to 30 June 2019 pursuant to the Extension Letters) and the Sun Finance Loan and in turn, improve the gearing ratio and, thus, the financial position of the Group. In addition, the Deed of Extension and Waiver to be entered into between the Company and the PN Holders at Subscription Completion further releases financial pressure of the Group by extending the maturity date of the Promissory Note 2 and Promissory Note 3 by two years to 31 January 2023 and waiving the interest accrued and to be accrued on the Promissory Notes from 1 January 2019 to the date of Subscription Completion or 31 January 2023 (as the case may be). As set out in Table 2 under the paragraph headed "(iii) For the nine months ended 31 December 2018 (i.e. 9M2018)" under the section headed "2. Financial information of the Group" above, the annual interest expenses for the Promissory Notes amounted to approximately HK\$29.0 million. Assuming that the Disposal Completion, the Share Sale Completion and the Subscription Completion had been taken place on 30 September 2018, the indebtedness of the Group as at 30 September 2018 would reduce from approximately HK\$679.8 million to approximately HK\$330.5 million, including (i) Promissory Note 2 in the principal amount of approximately HK\$52.5 million bearing no interest and due on 31 January 2023; (ii) Promissory Note 3 in the principal amount of approximately HK\$219.2 million bearing no interest and due on 31 January 2023; (iii) medium-term bonds held by independent third parties in the principal amount of HK\$35.0 million carrying interest at 7% per annum and due in November 2020; (iv) interest bearing borrowings of HK\$10.0 million carrying interest at 8% per annum and due on 12 February 2019; (v) interest bearing borrowings of HK\$10.0 million carrying interest at 8.5% per annum and due on 30 May 2020; and (vi) amounts due to related companies, which are unsecured, non-interest bearing and repayable on demand, of approximately HK\$3.8 million.

Having considered the facts that (i) the Group recorded continual loss since FY2012-13; (ii) the net liabilities position of the Group deteriorated to approximately HK\$101.6 million as at 30 September 2018; (iii) indebtedness of the Group amounted to approximately HK\$679.8 million as at 30 September 2018 (including (a) the Sun Finance Loan in the principal amount of approximately HK\$118.98 million which is repayable on demand; (b) interest bearing borrowings of HK\$10.0

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million carrying interest at 8% per annum and due in February 2019; and (c) the Promissory Note 1 of approximately HK\$128.6 million carrying interest of 2% per annum and due imminently on 28 February 2019 (which was subsequently extended to 30 June 2019 pursuant to the Extension Letters)); (iv) the total assets of the Group (excluding cash held on behalf of customers) as at 30 September 2018 amounted to only approximately HK\$632.5 million and could not fully cover the indebtedness of the Group; (v) the benefit of entering into of the Deed of Extension and Waiver at the Subscription Completion as discussed above; and (vi) the terms of the Subscription Agreement (including the Subscription Price) are fair and reasonable (please refer to our analysis as set out in the paragraph headed “B. Principal terms of the Subscription Agreement” below), we are of the view that the Subscription is in the interests of the Company and the Independent Shareholders as a whole.

### ***B. Principal terms of the Subscription Agreement***

**Date:** 14 February 2019 (as amended and supplemented by an extension letter dated 28 March 2019 and as amended and restated by the Amended and Restated Subscription Agreement dated 24 May 2019)

**Parties:** (a) Sun International Group Limited, as the issuer; and  
(b) First Cheer Holdings Limited, as the Subscriber

The Subscriber is a company incorporated in the British Virgin Islands and is principally engaged in investment holding. As at the Latest Practicable Date, the Subscriber held approximately 47.05% of the issued share capital of the Company and was a controlling Shareholder, and each of Mr. Chau and Mr. Cheng is a director and the beneficial owner of 50% of the issued share capital of the Subscriber. As at the Latest Practicable Date, each of Mr. Chau and Mr. Cheng also owned 1,251,250 Outstanding Options and 1,251,250 Outstanding Options granted by the Company respectively.

The subscription monies (the “**Subscription Monies**”) for the Subscription Shares is HK\$269,214,540.

At Subscription Completion, the Disposal Vendor, the Disposal Purchaser, the Company, Chau’s Holdings, Cheng Family Investment Holdings, the Subscriber and the PN Holders shall enter into the Deed of Consideration Settlement, pursuant to which, among others, (a) the whole amount of the Subscription Monies payable by the Subscriber shall be set off against (i) the entire principal amount of the Chau’s Holdings Loan in the amount of HK\$59,493,476.63; (ii) the entire principal amount of the Cheng Family Investment Holdings Loan in the amount of HK\$59,485,976.63; (iii) all the outstanding interests accrued up to 31 December 2018 of the Promissory Note 1 in an aggregate amount of HK\$4,731,754.45; (iv) the entire principal amount of the Promissory Note 1 in the amount of HK\$128,695,259; (v) part of the principal amount of the Promissory Note 2 in the amount of HK\$9,665,460.74; and (vi) part of the principal amount of the Promissory Note 4 in the amount of HK\$7,142,613.56; and (b) Chau’s Holdings shall assume a liability owing to Cheng Family Investment Holdings in the amount of HK\$8,400,286.65. As a result, the contribution towards the Subscription Monies by Mr. Chau and Mr. Cheng respectively will be proportionate to their respective shareholding in the Subscriber (namely, 50% by Mr. Chau and 50% by Mr. Cheng).

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At Subscription Completion, the Company and the PN Holders shall enter into the Deed of Extension and Waiver, pursuant to which, among others, (i) each of the PN Holder 1 and the PN Holder 4 agrees to waive all the interest accrued and to be accrued on the Promissory Note 1 and Promissory Note 4 respectively from 1 January 2019 to the date of Subscription Completion; (ii) each of the PN Holder 2 and the PN Holder 3 agrees to extend the maturity date of the Promissory Note 2 and the Promissory Note 3 respectively from 31 January 2021 to 31 January 2023; and (iii) each of the PN Holder 2 and the PN Holder 3 agrees to waive all the interest accrued and to be accrued on the Promissory Note 2 and the Promissory Note 3 respectively from 1 January 2019 to 31 January 2023.

As the Subscription Monies payable by the Subscriber will be set off against the entire principal amount of the Sun Finance Loan, the relevant principal amount and the outstanding interest accrued up to 31 December 2018 of the Promissory Notes, there will be no gross proceeds or net proceeds from the Subscription.

(i) *Subscription Shares*

Pursuant to the Subscription Agreement, the Subscriber will subscribe for and the Company will allot and issue a total of 780,332,000 Subscription Shares.

The Subscription Shares represents (i) approximately 56.08% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 35.93% of the enlarged issued share capital of the Company (assuming there is no change in the issued share capital of the Company between the Latest Practicable Date and the date of Subscription Completion save for the issuance of the Subscription Shares). The aggregate nominal value of the Subscription Shares is HK\$31,213,280.

(ii) *Subscription Price*

The Subscription Price of HK\$0.345 per Subscription Share represents:

- (a) a premium of approximately 21.05% over the closing price of HK\$0.285 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a premium of approximately 18.97% over the average closing price of HK\$0.290 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the Last Trading Day;
- (c) a discount of approximately 2.82% to the closing price of HK\$0.355 per Share as quoted on the Stock Exchange on the date of the Amended and Restated Subscription Agreement;

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- (d) a discount of approximately 4.43% to the average closing price of HK\$0.361 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the Amended and Restated Subscription Agreement;
- (e) a discount of approximately 4.17% to the closing price of HK\$0.360 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (f) an excess of HK\$0.398 to the Group's unaudited consolidated net liabilities attributable to the Shareholders per Share as at 31 December 2018 of approximately HK\$0.053 (based on a total of 1,391,400,000 Shares as at the Latest Practicable Date and the unaudited consolidated net liabilities attributable to owners of the Company of approximately HK\$73.2 million as at 31 December 2018).

As stated in the Letter from the Board, the Subscription Price was arrived at after arm's length negotiations between the Company and the Subscriber with reference to the recent trading price and trading volume of the Shares, the net liabilities position of the Company in the last two financial years and the amount of interest accrued or to be accrued on the Promissory Notes which is agreed to be waived.

*(iii) Historical Share price performance*

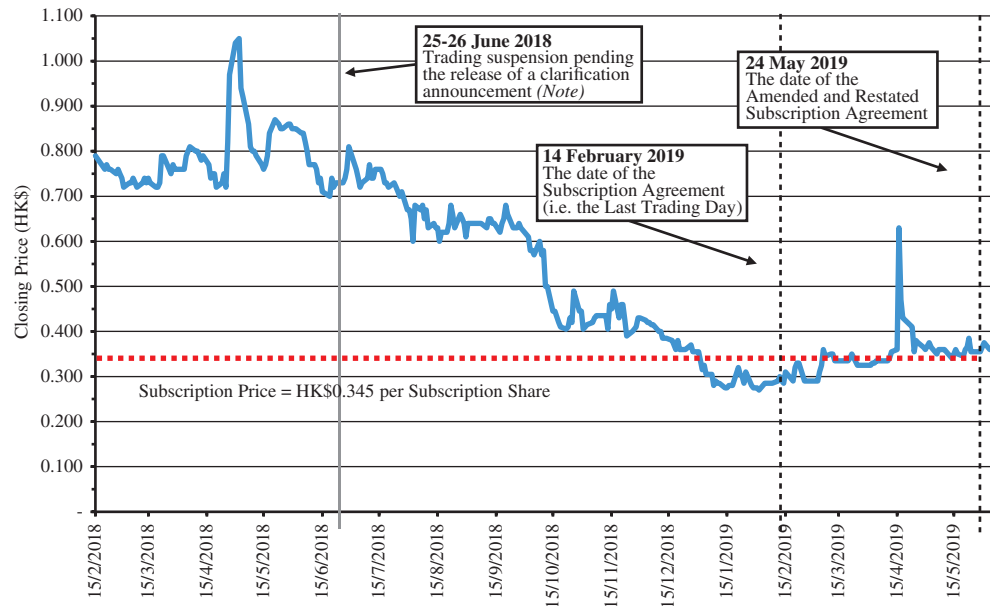
The following chart sets out the daily closing prices of the Shares on the Stock Exchange for the period from 15 February 2018 (being the first trading day of the 12-month period prior to the date of the Subscription Agreement) up to and including the Latest Practicable Date (the "**Review Period**"). We are of the view that the Review Period represents a reasonable period of time to provide a general overview of the recent price performance of the Shares.

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**Chart 1: Share price performance during the Review Period**



Source: the website of the Stock Exchange

Note: Trading in the Shares was suspended on 25 June 2018 and 26 June 2018 pending the release of a clarification announcement in relation to the annual results announcement of the Company for FY2017-18.

As illustrated in Chart 1 above, during the Review Period, the closing price of the Shares ranged from the lowest closing price of HK\$0.270 per Share as recorded on 1 February 2019 to the highest closing price of HK\$1.050 per Share as recorded on 2 May 2018, with an average price of approximately HK\$0.547 per Share. The Subscription Price represents (i) a premium of approximately 27.78% over the lowest closing price of the Shares; (ii) a discount of approximately 67.14% to the highest closing price of the Shares; and (iii) a discount of approximately 36.96% to the average closing price of the Shares during the Review Period, respectively.

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During the period from 15 February 2018 to 2 May 2018, we noted that the closing price of the Shares exhibited an increasing trend and hit the highest point of HK\$1.050 per Share on 2 May 2018. We have discussed with the Management regarding the increasing trend of the Share price and were advised that they are not aware of other particular reason that led to the increasing trend of the price of the Shares. Thereafter, the closing price of the Shares exhibited a decreasing trend and closed at HK\$0.285 per Share on the date of the Subscription Agreement. We have discussed with the Management regarding the decreasing trend of the Share price and were advised that save for the results announcements of the Company and the announcement of the Company dated 13 August 2018 in respect of the Litigation, they are not aware of other particular reason that led to the decreasing trend of the price of the Shares.

Following the date of the Subscription Agreement, the closing price of the Shares increased by approximately 8.77% to HK\$0.310 per Share on 15 February 2019 (being the first trading day after the publication of the Announcement) as compared to that of HK\$0.280 per Share on the Last Trading Day. We believe that such rise in the closing price of the Shares may be associated with the Subscription as the Subscription Price represents a premium over the closing price of the Shares on the Last Trading Day. During the period commencing from 16 February 2019 to 15 April 2019, we noted that the closing price of the Shares fluctuated within a range from HK\$0.290 per Share to HK\$0.360 per Share. On 16 April 2019, the closing price of the Shares increased significantly to HK\$0.630 per Share. We have discussed with the Management regarding the surge of the Share price and were advised that the Board is not aware of other particular reason that led to the fluctuation of the price of the Shares. Thereafter, the closing price of the Shares dropped gradually and closed at HK\$0.355 per Share on 24 April 2019. The Shares then traded within a range from HK\$0.340 per Share to HK\$0.385 per Share during the period commencing from 25 April 2019 to the Latest Practicable Date. As at the Latest Practicable Date, the closing price of the Shares was HK\$0.360 per Share.

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(iv) *Historical trading volume of the Shares*

The following table sets out the trading volume of the Shares during the Review Period:

**Table 5: Trading volume of the Shares during the Review Period**

Month/Period	Total trading volume <i>(No. of Shares)</i>	Number of trading days	Average daily trading volume of the Shares <i>(No. of Shares)</i>	Average daily trading volume as a percentage of the total number of Shares in issue <i>(Note 2)</i>	Average daily trading volume to no. of Shares held by public Shareholders <i>(Note 3)</i>
February 2018 (From 15 February 2018)	4,070,000	8	508,750	0.037%	0.069%
March 2018	29,250,000	21	1,392,857	0.100%	0.189%
April 2018	25,590,000	19	1,346,842	0.097%	0.183%
May 2018	18,925,000	21	901,190	0.065%	0.122%
June 2018 <i>(Note 1)</i>	6,175,050	18	343,058	0.025%	0.047%
July 2018	4,885,000	21	232,619	0.017%	0.032%
August 2018	20,350,000	23	884,783	0.064%	0.120%
September 2018	4,540,000	19	238,947	0.017%	0.032%
October 2018	13,835,000	21	658,810	0.047%	0.089%
November 2018	3,320,000	22	150,909	0.011%	0.020%
December 2018	3,180,000	19	167,368	0.012%	0.023%
January 2019	3,395,000	22	154,318	0.011%	0.021%
February 2019	4,075,000	17	239,706	0.017%	0.033%
<i>– Prior to the publication of the Joint Announcement</i>	<i>1,035,000</i>	<i>7</i>	<i>147,857</i>	<i>0.011%</i>	<i>0.020%</i>
<i>– After the publication of the Joint Announcement</i>	<i>3,040,000</i>	<i>10</i>	<i>304,000</i>	<i>0.022%</i>	<i>0.041%</i>
March 2019	4,505,000	21	214,524	0.015%	0.029%
April 2019	9,317,500	19	490,395	0.035%	0.067%
May 2019	10,230,000	21	487,143	0.035%	0.066%
June 2019 (up to the Latest Practicable Date)	160,000	2	80,000	0.006%	0.011%



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*Note:*

1. Trading in the Shares was suspended on 25 June 2018 and 26 June 2018 pending the release of a clarification announcement in relation to the annual results announcement of the Company for FY2017-18.
2. The calculation is based on the average daily trading volume of the Shares divided by the total issued share capital of the Company as at the Latest Practicable Date (i.e. 1,391,400,000 Shares).
3. The calculation is based on the average daily trading volume of the Shares divided by the number of Shares held by the public Shareholders as at the Latest Practicable Date (i.e. 736,722,960 Shares).

As illustrated in Table 5 above, the average daily trading volume for the respective month/period during the Review Period ranged from approximately 80,000 Shares to approximately 1,392,857 Shares, representing approximately 0.006% to approximately 0.100% of the total number of issued Shares as at the Latest Practicable Date, or approximately 0.011% to approximately 0.189% of the total number of issued Shares held by public Shareholders as at the Latest Practicable Date.

During the period from 15 February 2018 until the publication of the Announcement (the “**Pre-announcement Period**”), we noted that the average daily trading volume of the Shares in March 2018, April 2018, May 2018 and August 2018 was comparatively high. We have discussed with the Management regarding the comparatively high trading volume of the Shares and were advised that save for the results announcements of the Company and the announcement of the Company dated 13 August 2018 in respect of the Litigation, they are not aware of other particular reason that led to the comparatively high trading volume of the Shares.

Save for the comparatively high daily trading volume of the Shares in March 2018, April 2018, May 2018 and August 2018 as discussed above, the average daily trading volume of the Shares was relatively thin during the Pre-announcement Period. Following the date of the Subscription Agreement and up to the Latest Practicable Date (the “**Post-announcement Period**”), the average daily trading volume of the Shares remained thin and amounted to approximately 373,322 Shares (representing approximately 0.027% of the total number of issued Shares as at the Latest Practicable Date).

(v) *Comparison of the Subscription Price*

In accessing the fairness and reasonableness of the Subscription Price, we attempted to compare the Subscription Price against the market valuation of other comparable companies using the price-to-earnings ratio (“**PE ratio**”) and the price-to-book ratio (“**PB ratio**”), which are commonly used valuation multiples. However, since the Company recorded a loss attributable to the owners of the Company in FY2017-18 and was in a net liabilities position as at 31 March 2018 and 30 September 2018, therefore, the comparison by using the PE ratio and the PB ratio are not applicable.

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Given that (i) the Group is principally engaged in money lending, securities and equine business (the “**Relevant Business**”); (ii) the Subscription constitutes a connected transaction; (iii) the issue and allotment of the Subscription Shares will trigger mandatory offer obligation under Rule 26 of the Takeovers Code (the “**Mandatory Offer Obligation**”); and (iv) the market capitalization of the Company is approximately HK\$500 million as at 24 May 2019 (i.e. the date of the Amended and Restated Subscription Agreement), we have attempted to identify the companies listed on the Stock Exchange with the following selection criteria: (i) companies principally engaged in the Relevant Business; (ii) companies announced subscription of new shares involving the Mandatory Offer Obligation during the six-month period immediately before the date of the Amended and Restated Subscription Agreement; and (iii) companies with market capitalization less than HK\$1 billion as at 24 May 2019. Nevertheless, due to the unique business nature of the Group, we were unable to identify suitable comparable companies with similar business nature with the Group.

In this regard, we have relaxed the selection criteria to those companies (the “**Comparables**”) listed on the Stock Exchange and announced subscription of new shares involving the Mandatory Offer Obligation during the one-year period immediately before the date of the Amended and Restated Subscription Agreement. Based on the information available from the website of the Stock Exchange, we have identified an exhaustive list of 6 Comparables which met the said criteria and had not lapsed as at the Latest Practicable Date. However, one of the Comparables, namely Beijing Jingcheng Machinery Electric Company Limited (stock code: 187), has not yet determined the issue price of the shares as at the Latest Practicable Date. Hence, we have excluded such Comparable in our analysis.

Shareholders should note that the businesses, operations and prospects of the Company are not the same as the relevant issuers of the Comparables and thus the comparison of the issue prices of the Comparables and the Subscription Price may not represent an identical comparison. We, however, consider that such comparison could be treated as an indication

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as to the reasonableness and fairness of the Subscription Price. The relevant details of the Comparables are set forth in Table 6 below:

**Table 6: Details of the Comparables**

Date of relevant announcement	Company Name	Stock code	Principal Activities	Premium/(discount) of issue price over/ to share price as at the last trading day prior to the date of the announcement/ agreement ("Premium/ Discount) – Last Day") (%)	Premium/(discount) of issue price over/ to the average share price for the last 30 consecutive trading days prior to the date of the announcement/ agreement ("Premium/ Discount) – 30 Day") (%)	Premium/(discount) of issue price over/ to the average share price for the last 60 consecutive trading days prior to the date of the announcement/ agreement ("Premium/ Discount) – 60 Day") (%)
31-Jul-2018	Truly International Holdings Limited	732	Manufacture and sale of liquid crystal display products and electronic consumer products	(6.35)	(16.92)	(27.03)
12-Oct-2018	Quali-Smart Holdings Limited	1348	Manufacturing and sales of toys and provision of securities brokerage, securities margin financing, investment advisory, corporate finance advisory and asset management services	(39.70)	(39.55)	(39.46)
1-Feb-2019	Green International Holdings Limited	2700	Provision of (i) health, medical and related services; (ii) beauty, wellness and related services; and (iii) integrated financial services	8.16	1.60	(11.86)
27-Feb-2019	Yuxiu Property Company Limited	123	Property development and investment	20.50	29.00	34.56
16-Apr-2019	Pearl Oriental Oil Limited	632	(i) Exploring, exploiting and sale of oil and natural gas; and (ii) trading of oil-related products	(83.61) (Note)	(79.52) (Note)	(79.62) (Note)
6-May-2019	CSMall Group Limited	1815	Design and sale of gold, silver and jewellery products	0.00	(10.12)	(13.06)
			<b>Maximum (Note)</b>	<b>20.50</b>	<b>29.00</b>	<b>34.56</b>
			<b>Minimum (Note)</b>	<b>(39.70)</b>	<b>(39.55)</b>	<b>(39.46)</b>
			<b>Average (Note)</b>	<b>(3.48)</b>	<b>(7.20)</b>	<b>(11.37)</b>
			<b>Median (Note)</b>	<b>0.00</b>	<b>(10.12)</b>	<b>(13.06)</b>
			<b>The Subscription Price</b>	<b>(2.82)</b>	<b>(7.75)</b>	<b>(1.31)</b>

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*Note:*

As the Premium/(Discount) – Last Day, the Premium/(Discount) – 30 Day and the Premium/(Discount) – 60 Day represented by the issue price of shares of Pearl Oriental Oil Limited (stock code: 632) (“**Pearl Oriental**”) are exceptionally low as compared with those of other Comparables, we consider that the Premium/(Discount) – Last Day, the Premium/(Discount) – 30 Day and the Premium/(Discount) – 60 Day represented by the issue price of shares of Pearl Oriental are outliers and have been excluded in our analysis.

As shown in Table 6 above, we noted that (i) the Premium/(Discount) – Last Day represented by the issue prices of the Comparables (excluding Pearl Oriental) ranged from a discount of approximately 39.70% to a premium of approximately 20.50%, with a median of 0.00% and an average of a discount of approximately 3.48%; (ii) the Premium/(Discount) – 30 Day represented by the issue prices of the Comparables (excluding Pearl Oriental) ranged from a discount of approximately 39.55% to a premium of approximately 29.00%, with a median of a discount of approximately 10.12% and an average of a discount of approximately 7.20%; and (iii) the Premium/(Discount) – 60 Day represented by the issue prices of the Comparables (excluding Pearl Oriental) ranged from a discount of approximately 39.46% to a premium of approximately 34.56%, with a median of a discount of approximately 13.06% and an average of a discount of approximately 11.37%. The Premium/(Discount) – Last Day, the Premium/(Discount) – 30 Day and the Premium/(Discount) – 60 Day (collectively, the “**Premium/(Discount) Rates**”) represented by the Subscription Price are within the range of the Premium/(Discount) Rates represented by the issue prices of the Comparables.

Notwithstanding that the Subscription Price represents (a) a discount of approximately 2.82% to the closing price of HK\$0.355 per Share as at the date of the Amended and Restated Subscription Agreement; (b) a discount of approximately 4.43% to the average closing price of approximately HK\$0.361 per Share for the last five consecutive trading days immediately prior to the date of the Amended and Restated Subscription Agreement; and (c) a discount of approximately 4.17% to the closing price of HK\$0.360 per Share as at the Latest Practicable Date, having taken into account that (i) the Subscription Price represents (a) a premium of approximately 21.05% over the closing price of HK\$0.285 per Share on the Last Trading Day; (b) a premium of approximately 18.97% over the average closing price of HK\$0.290 per Share for the last five consecutive trading days immediately prior to the Last Trading Day; (ii) the Premium/(Discount) Rates represented by the Subscription Price are within the range of the Premium/(Discount) Rates represented by the issue prices of the Comparables; (iii) the Subscription Price represents an excess of HK\$0.398 to the Group’s unaudited consolidated net liabilities attributable to the Shareholders per Share as at 31 December 2018 of approximately HK\$0.053; and (iv) save for the comparatively high average daily trading volume of the Shares in March 2018, April 2018, May 2018 and August 2018, the trading volume of Shares was low during the Review Period (including the Pre-announcement Period and the Post-announcement Period), we consider that the Subscription Price is fair and reasonable.

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### *C. Potential dilution effect on the interests of the Independent Shareholders*

The change in shareholding structure of the Company arising from the Subscription are set out in the paragraph headed “CHANGE IN SHAREHOLDING STRUCTURE” in the Letter from the Board. The shareholding interest of other public Shareholders would reduce by 19.03 percentage points from approximately 52.95% as at the Latest Practicable Date to approximately 33.92% immediately upon Subscription Completion (assuming that there is no other change in the issued share capital of the Company from the Latest Practicable Date and up to the date of Subscription Completion save for the issuance of the Subscription Shares).

Taking into account (i) the reasons for the Subscription as described under the paragraph headed “A. Reasons for the Subscription” under the section headed “6. The Subscription Agreement” above; (ii) the terms of the Subscription Agreement are fair and reasonable so far as the Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole (please refer to our analysis as set out in the paragraph headed “B. Principal terms of the Subscription Agreement” under the section headed “6. The Subscription Agreement” above); and (iii) the improvement of net liabilities position as discussed in the paragraph headed “A. Net asset value” under the section headed “7. Financial effects of the Restructuring” below, we consider that the possible dilution effect on the shareholding interests of the other public Shareholders is acceptable.

### *D. Conclusion*

In view of the above, in particular the facts that (i) the Group recorded continual loss since FY2012-13; (ii) the net liabilities position of the Group deteriorated to approximately HK\$101.6 million as at 30 September 2018; (iii) indebtedness of the Group amounted to approximately HK\$679.8 million as at 30 September 2018 (including (a) the Sun Finance Loan in the principal amount of approximately HK\$118.98 million which is repayable on demand; (b) interest bearing borrowings of HK\$10.0 million carrying interest at 8% per annum and due in February 2019; and (c) the Promissory Note 1 of approximately HK\$128.6 million carrying interest of 2% per annum and due imminently on 28 February 2019); (iv) the total assets of the Group (excluding cash held on behalf of customers) as at 30 September 2018 amounted to only approximately HK\$632.5 million and could not fully cover the indebtedness of the Group; (v) the Subscription offers a good opportunity for the Group to ease the liquidity pressure of the Group caused by the imminent due date of the Promissory Note 1 in February 2019 (which has subsequently been extended to 30 June 2019 pursuant to the Extension Letters) and the Sun Finance Loan and in turn, improve the gearing ratio and, thus, the financial position of the Group; (vi) the terms of the Subscription Agreement (including the Subscription Price) are fair and reasonable; and (vii) the possible dilution effect on the shareholding interests of the other public Shareholders is acceptable, we concur that the view of the Management that the Subscription is fair and reasonable and on normal commercial terms and the entering into of the Subscription Agreement is in the interests of the Company and the Independent Shareholders as a whole.

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## LETTER FROM ASTRUM CAPITAL

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### 7. Financial effects of the Restructuring

#### A. *Net asset value*

According to the 2018 Interim Report, the net liabilities of the Group were approximately HK\$101.6 million as at 30 September 2018. Upon completion of the Restructuring, the equity of the Group would (i) increase by (a) the Subscription of approximately HK\$269.2 million; and (b) the expected gain from the Share Sale in the estimated amount of approximately HK\$5.7 million (which is arrived at after taking into consideration the expected Purchase Price in the amount of AUD1 (equivalent to approximately HK\$5.64) and the unaudited net liabilities of the Target Company as at 31 December 2018 in the amount of approximately AUD1,009,031 (equivalent to approximately HK\$5,690,935); and (ii) partially offset by the loss on the Disposal of HK\$157,671 (which is based on the difference between (i) the Consideration; and (ii) the book value of the Sale Loan and the amount of the related expenses). As such, the Restructuring is expected to have a positive impact on the financial position of the Group. This significant improvement in the financial position of the Group is beneficial to the Company and the Shareholders (including the Independent Shareholders) as a whole.

#### B. *Liquidity*

According to the 2018 Interim Report, the bank balances and cash position of the Group as at 30 September 2018 was approximately HK\$98.1 million. Upon completion of the Restructuring, the bank balances and cash position of the Group would not be positively impacted as (i) the Consideration payable by the Disposal Purchaser will be set off against part of the principal amount of the Promissory Note 4 and the outstanding interests accrued up to 31 December 2018 of the Promissory Note 2, the Promissory Note 3 and the Promissory Note 4; (ii) the Purchase Price of Share Sale is likely to be AUD1; (iii) the whole amount of the Sun Kingdom Loan will be set off against part of the principal amount of the Promissory Note 2; and (iv) the Subscription Monies payable by the Subscriber will be set off against the entire principal amount of the Sun Finance Loan, the relevant principal amount and the outstanding interest accrued up to 31 December 2018 of the Promissory Notes.

However, the set-off arrangement for the Promissory Notes and the Sun Finance Loan and the extension of the maturity date of the remaining Promissory Notes for two years to 31 January 2023, in essence, have positive effects on liquidity of the Group as indebtedness of the Group is reduced and extended.

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**LETTER FROM ASTRUM CAPITAL**

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**C. Indebtedness**

**Table 7: Indebtedness of the Group to the Subscriber and its associates after the Deed of Set-off, the Deed of Consideration Settlement and the Deed of Extension and Waiver**

	Principal amount (HK\$)	Outstanding accrued interest thereon up to 31 December 2018 (HK\$)	Total (HK\$)	Annual interest rate	Due date	Annual interest amount (HK\$)
Sun Finance Loan	-	-	-	-	-	-
Promissory Note 1	-	-	-	-	-	-
Promissory Note 2	52,527,327.13	-	52,527,327.13	Nil	31 January 2023	Nil
Promissory Note 3	219,240,000.00	-	219,240,000.00	Nil	31 January 2023	Nil
Promissory Note 4	-	-	-	-	-	-
<b>Total</b>	<u>271,767,327.13</u>	<u>-</u>	<u>271,767,327.13</u>			<u>Nil</u>

As compared to the indebtedness of the Group as at 14 February 2019 as illustrated in Table 2 under the paragraph headed “(iii) For the nine months ended 31 December 2018 (i.e. 9M2018)” under the section headed “2. Financial information of the Group” above, total indebtedness of the Group to the Subscriber and its associates would be reduced by 58.5% from approximately HK\$654.4 million to approximately HK\$271.8 million after the Restructuring.

**8. Whitewash Waiver**

Upon Subscription Completion, the shareholding of the Subscriber and parties acting in concert with it will increase from approximately 47.05% to approximately 66.08% of the issued share capital and total voting rights of the Company as enlarged by the Subscription Shares, assuming that there is no other change in the Company’s issued share capital between the Latest Practicable Date and Subscription Completion. Accordingly, pursuant to Rule 26.1 of the Takeovers Code, the Subscriber will be required to make a mandatory general offer for all the issued Shares and the Outstanding Options not already owned or agreed to be acquired by the Subscriber and parties acting in concert with it, unless the Whitewash Waiver has been obtained from the Executive. An application has been made by the Subscriber to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted, will be subject to, among other things, the approval of the Independent Shareholders taken by way of a poll at the EGM. The resolution in relation to the Whitewash Waiver shall be approved by at least 75% of the independent vote that are cast either in person or by proxy by the Independent Shareholders at the EGM.

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## LETTER FROM ASTRUM CAPITAL

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Pursuant to the Subscription Agreement, Subscription Completion is conditional upon, among other things, the Whitewash Waiver being granted by the Executive and approved by the Independent Shareholders. Furthermore, pursuant to the Disposal Agreement, Disposal Completion is conditional upon, among other things, the Subscription Agreement having become unconditional. As such, if the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the Disposal Agreement and the Subscription Agreement will lapse and the Disposal and the Subscription will not proceed. Accordingly, the Company will lose all the benefits that are expected to be brought by the Disposal as discussed in the paragraph headed “B. Background of, reasons for and benefits of the Disposal” under the section headed “3. The Disposal Agreement” and the Subscription as discussed in the paragraph headed “A. Reasons for the Subscription” under the section headed “6. The Subscription Agreement” above.

In view of the above, we are of the opinion that the Whitewash Waiver is in the interests of the Company and the Independent Shareholders as a whole.

### **9. Special Deals**

As set out in the Letter from the Board, since each of the Disposal, the Share Sale and the Master Service Agreement is an arrangement made between the Company, a party acting in concert with the Subscriber, and the Subscriber (which is a controlling shareholder of the Company), which is not capable of being extended to all Shareholders, each of the Disposal, the Share Sale and the Master Service Agreement constitutes a special deal under Rule 25 of the Takeovers Code and requires the consent of the Executive. An application has been made to the Executive for the consent to proceed with the Special Deals under Rule 25 of the Takeovers Code. Such consent, if granted, will be subject to (i) the Independent Financial Adviser publicly stating that in its opinion the terms of each of the Disposal, the Share Sale and the Master Service Agreement are fair and reasonable; and (ii) the approval of each of the Disposal, the Share Sale and the Master Service Agreement by the Independent Shareholders by way of poll at the EGM. If the Executive does not consent to the Special Deals, and/or the approval of the Independent Shareholders is not obtained, the Disposal, the Share Sale and the Master Service Agreement will not proceed.

In view of the net liabilities of the Group of approximately HK\$101.6 million as at 30 September 2018, the loss-making situation of the Group since 2013 and going concern issue of the Company, the Company expects that, without conducting any equity/debt fund raising activities by the Company, it would not have sufficient financial resources to repay the Promissory Note 1 which has been due on 28 February 2019 and was subsequently extended to 30 June 2019 pursuant to the Extension Letters) and/or other indebtedness set out above. With a view to alleviate the aforementioned net liabilities position, net loss position and going concern issue, the Company had been in negotiation with Mr. Cheng, Mr. Chau and the Subscriber for a series of restructuring transactions and eventually led to the Restructuring.

Having considered that (i) the Disposal could enable the Group to recover the Sale Loan within a foreseeable timeframe and the set-off arrangement of the Consideration with the Promissory Notes would lower the gearing ratio of the Group (please refer to our analysis as set out in the paragraph headed “B. Background of, reasons for and benefits of the Disposal” under the section headed “3. The Disposal Agreement” above); (ii) the Share Sale provides the Group an opportunity to divest its investment in the



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## LETTER FROM ASTRUM CAPITAL

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Target Company at a reasonable price and allocate more resources to the Group's other existing business (including the equine business currently operated by Sun Stud) and any other potential business should the opportunity arise (please refer to our analysis as set out in the paragraph headed "B. Background of, reasons for and benefits of the Share Sale" under the section headed "4. The Share Sale Agreement" above); and (iii) the continuing connected transactions contemplated under the Master Service Agreement are in the ordinary and usual course of business of the Group and the terms of the Master Service Agreement are fair and reasonable and on normal commercial terms and are in the interests of the Company and the Shareholders as a whole (please refer to our analysis as set out in the section headed "5. The Master Service Agreement" above), we are of the view that the Special Deals are fair and reasonable so far as the Independent Shareholders are concerned.

### RECOMMENDATION

Having taken into account the facts that (i) the only asset in the Borrower's Securities Account is 25,600,000 shares of the Charged Company which had no market value as at the date of the Disposal Agreement given that trading of the shares of the Charged Company on the Stock Exchange has been halted with effect from July 2018 and the Charged Company is put in provisional liquidation in August 2018; (ii) the Disposal could enable the Group to recover the Sale Loan within a foreseeable timeframe, thereby eliminating the uncertainty and the credit risks associated with the Sale Loan; (iii) the Consideration was determined by the Disposal Purchaser and the Disposal Vendor with reference to the sum of the outstanding principal amount of the Sale Loan and the interest accrued thereon up to the date interest reference date referred to in the writ of summons commencing the Litigation (i.e. 2 August 2018); (iv) the Consideration represents approximately 99.5% of the book value of the Sale Loan and the difference of HK\$147,671 is a minimal amount compared with the amount of the Sale Loan; and (v) the set-off arrangement of the Consideration with the Promissory Notes would lower the gearing ratio of the Group, we consider that the terms of the Disposal Agreement are on normal commercial terms, fair and reasonable, and the Disposal is in the interests of the Company and the Independent Shareholders as a whole.

Having taken into account the facts that (i) the continual loss-making position and net liabilities position of the Target Company; (ii) it is expected that the Going Concern Issue will remain outstanding in the near future unless there is a significant improvement on the business and financial performance of the Target Company; (iii) the Share Sale provides the Group an opportunity to divest its investment in the Target Company at a reasonable price and allocate more resources to the Group's other existing business (including the equine business currently operated by Sun Stud) and any other potential business should the opportunity arise; (iv) the set-off arrangement of the Sun Kingdom Loan against part of the principal amount of the Promissory Note 2 can, on one hand, allow the Company to recover the Sun Kingdom Loan and, on the other hand, lower the gearing ratio of the Company by setting off part of the principal amount of the Promissory Note 2 in the amount of HK\$81,447,212.13; (v) the Initial Purchase Price was determined at a nominal value of AUD1 in view of the net liabilities position of the Target Company of AUD1,009,031 (equivalent to approximately HK\$5,690,935) as at 31 December 2018; and (vi) the Adjustment Mechanism is well in place so as to further safeguard the interest of the Company, we consider that the terms of the Share Sale Agreement are on normal commercial terms, fair and reasonable, and the Share Sale is in the interests of the Company and the Independent Shareholders as a whole.

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## LETTER FROM ASTRUM CAPITAL

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Having taken into account the facts that (i) Sun Bloodstock and the Target Company are the major customers of Sun Stud; (ii) the Target Company will cease to be the subsidiary of the Company upon Share Sale Completion; (iii) it is expected that the Target Company will continue to rely on the Services to be provided by Sun Stud Group upon Share Sale Completion; (iv) the implementation of the Internal Control Procedures can ensure that the service fees charged by Sun Stud to the Target Company and/or its Affiliates (including but not limited to Sun Bloodstock) shall be no less favorable to the Group than those charged to other customers of the Sun Stud Group who are independent third parties, and are in accordance with the pricing policy of the Group from time to time; and (v) the 2020 Annual Cap, 2021 Annual and 2022 Annual Cap are justifiable, fair and reasonable so far as the Company and the Independent Shareholders are concerned, we consider that the terms of the Master Service Agreement are on normal commercial terms, fair and reasonable, and the entering into of the Master Service Agreement is in the interests of the Company and the Independent Shareholders as a whole.

Having taken into account the facts that (i) the Group recorded continual loss since FY2012-13; (ii) the net liabilities position of the Group deteriorated to approximately HK\$101.6 million as at 30 September 2018; (iii) indebtedness of the Group amounted to approximately HK\$679.8 million as at 30 September 2018 (including (a) the Sun Finance Loan in the principal amount of approximately HK\$118.98 million which is repayable on demand; (b) interest bearing borrowings of HK\$10.0 million carrying interest at 8% per annum and due in February 2019; and (c) the Promissory Note 1 of approximately HK\$128.6 million carrying interest of 2% per annum and due imminently on 28 February 2019); (iv) the total assets of the Group (excluding cash held on behalf of customers) as at 30 September 2018 amounted to only approximately HK\$632.5 million and could not fully cover the indebtedness of the Group; (v) the Subscription offers a good opportunity for the Group to ease the liquidity pressure of the Group caused by the imminent due date of the Promissory Note 1 in February 2019 (which has subsequently been extended to 30 June 2019 pursuant to the Extension Letters) and the Sun Finance Loan and in turn, improve the gearing ratio and, thus, the financial position of the Group; (vi) the terms of the Subscription Agreement (including the Subscription Price) are fair and reasonable; and (vii) the possible dilution effect on the shareholding interests of the other public Shareholders is acceptable, we consider that the terms of the Subscription Agreement are on normal commercial terms, fair and reasonable, and the Subscription is in the interests of the Company and the Independent Shareholders as a whole.

Having taken into account the facts that (i) Subscription Completion is conditional upon, among other things, the Whitewash Waiver being granted by the Executive and approved by the Independent Shareholders, and Disposal Completion is conditional upon, among other things, the Subscription Agreement having become unconditional; (ii) if the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the Disposal Agreement and the Subscription Agreement will lapse and the Disposal and the Subscription will not proceed, and accordingly, the Company will lose all the benefits that are expected to be brought by the Disposal as discussed in the paragraph headed “B. Background of, reasons for and benefits of the Disposal” under the section headed “3. The Disposal Agreement” and the Subscription as discussed in the paragraph headed “A. Reasons for the Subscription” under the section headed “6. The Subscription Agreement” above, we consider that the Whitewash Waiver is in the interests of the Company and the Independent Shareholders as a whole.

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## LETTER FROM ASTRUM CAPITAL

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Having taken into account the facts that (i) the Disposal could enable the Group to recover the Sale Loan within a foreseeable timeframe and the set-off arrangement of the Consideration with the Promissory Notes would lower the gearing ratio of the Group (please refer to our analysis as set out in the paragraph headed “B. Background of, reasons for and benefits of the Disposal” under the section headed “3. The Disposal Agreement” above); (ii) the Share Sale provides the Group an opportunity to divest its investment in the Target Company at a reasonable price and allocate more resources to the Group’s other existing business (including the equine business currently operated by Sun Stud) and any other potential business should the opportunity arise (please refer to our analysis as set out in the paragraph headed “B. Background of, reasons for and benefits of the Share Sale” under the section headed “4. The Share Sale Agreement” above); and (iii) the continuing connected transactions contemplated under the Master Service Agreement are in the ordinary and usual course of business of the Group and the terms of the Master Service Agreement are fair and reasonable and on normal commercial terms and are in the interests of the Company and the Shareholders as a whole (please refer to our analysis as set out in the section headed “5. The Master Service Agreement” above), we consider that the Special Deals are fair and reasonable, and are in the interests of the Company and the Independent Shareholders as a whole.

Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favor of the relevant resolutions at the EGM to approve the entering into of the Disposal Agreement, the Share Sale Agreement, the Master Service Agreement, the Subscription Agreement, the Whitewash Waiver and the Special Deals.

Yours faithfully,

For and on behalf of

**Astrum Capital Management Limited**

**Hidulf Kwan**

*Managing Director*

**Rebecca Mak**

*Director*

*Note:* Mr. Hidulf Kwan has been a responsible officer of Type 6 (advising on corporate finance) regulated activity under the SFO since 2006 and has participated in and completed various independent financial advisory transactions.

Ms. Rebecca Mak has been a responsible officer of Type 6 (advising on corporate finance) regulated activity under the SFO since 2011 and has participated in and completed various independent financial advisory transactions.

## SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

The published audited consolidated financial statements of the Group for the three years ended 31 March 2016, 2017 and 2018 are disclosed in the annual reports of the Company for the three years ended 31 March 2016, 2017 and 2018. The published unaudited consolidated financial statements of the Group for the six months ended 30 September 2018 are disclosed in the interim report of the Company for the six months ended 30 September 2018. The published unaudited consolidated financial statements of the Group for the nine months ended 31 December 2018 are disclosed in the quarterly report of the Company for the nine months ended 31 December 2018. They can be accessed on the websites of the Company (<http://www.sun8029.com>) and the Stock Exchange (<http://www.hkexnews.hk>):

- (i) annual report of the Company for the year ended 31 March 2016 published on 29 June 2016, which can be accessed via the link at

<http://www.sun8029.com/doc/24-EW08029.pdf>; or  
<http://www3.hkexnews.hk/listedco/listconews/GEM/2016/0629/GLN20160629079.pdf>;

- (ii) annual report of the Company for the year ended 31 March 2017 published on 30 June 2017, which can be accessed via the link at

<http://www.sun8029.com/doc/3-GLN20170630175.pdf>; or  
<http://www3.hkexnews.hk/listedco/listconews/GEM/2017/0630/GLN20170630175.pdf>;

- (iii) annual report of the Company for the year ended 31 March 2018 published on 28 June 2018, which can be accessed via the link at

[http://www.sun8029.com/doc/e08029\\_180629-1000\\_AR.pdf](http://www.sun8029.com/doc/e08029_180629-1000_AR.pdf); or  
<http://www3.hkexnews.hk/listedco/listconews/GEM/2018/0628/GLN20180628041.pdf>;

- (iv) interim report of the Company for the six months ended 30 September 2018 published on 13 November 2018, which can be accessed via the link at

[http://www.sun8029.com/doc/e08029\\_181113-1430.pdf](http://www.sun8029.com/doc/e08029_181113-1430.pdf); or  
<http://www3.hkexnews.hk/listedco/listconews/GEM/2018/1113/GLN20181113061.pdf>;

- (v) quarterly report of the Company for the nine months ended 31 December 2018 published on 12 February 2019, which can be accessed via the link at

[http://www.sun8029.com/doc/e08029\\_190212-1630.pdf](http://www.sun8029.com/doc/e08029_190212-1630.pdf); or  
<http://www3.hkexnews.hk/listedco/listconews/GEM/2019/0212/GLN20190212087.pdf>.

The following summary of financial information for each of the three years ended 31 March 2016, 2017 and 2018 is extracted from the condensed consolidated financial statements and the consolidated financial statements of the Company as set forth in the annual reports of the Company for the years ended 31 March 2016, 2017 and 2018, respectively.

	<b>For the year ended 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
	<i>(Restated)</i>	<i>(Restated)</i>	
<b>INCOME STATEMENT</b>			
<b>Continuing operations</b>			
Revenue	121,138,764	94,736,647	118,798,880
Direct costs	(49,925,699)	(39,863,198)	(51,434,090)
Gross profit	71,213,065	54,873,449	67,364,790
Other operating income	4,581,572	6,337,777	9,391,559
Administrative expenses	(122,457,848)	(115,727,048)	(99,095,104)
Finance costs	(25,571,776)	(35,998,642)	(36,315,661)
Fair value change of biological assets, net	(1,508,311)	(9,108,865)	10,992,110
Share of losses of associates	(35,653,059)	(43,800)	–
Gain on disposal of a subsidiary	(91)	–	435,204
Gain on disposal of associates	–	14,753,487	–
Impairment loss on goodwill	(6,528,059)	–	–
Impairment loss on loan receivables	–	–	(3,000,000)
Impairment loss on amount due from non-controlling shareholders of a subsidiary	(9,360,000)	–	–
Fair value gain on breakeven guarantee	232,096	–	–
Loss before taxation from continuing operations	(125,052,411)	(84,913,642)	(50,227,102)
Income tax expense	(338,276)	(68,428)	(1,603,392)
Loss for the year from continuing operations	<u>(125,390,687)</u>	<u>(84,982,070)</u>	<u>(51,830,494)</u>
<b>Discontinued operation</b>			
Loss for the year from discontinued operation, net of income tax	<u>(182,954)</u>	<u>(902,858)</u>	<u>(11,657,764)</u>
<b>Loss for the year</b>	<u><u>(125,573,641)</u></u>	<u><u>(85,884,928)</u></u>	<u><u>(63,488,258)</u></u>

	For the year ended 31 March		
	2016	2017	2018
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
	HK\$	HK\$	HK\$
	<i>(Restated)</i>	<i>(Restated)</i>	
<b>Other comprehensive (loss)/income:</b>			
<i>Item that may be reclassified</i>			
<i>subsequently to profit or loss:</i>			
Exchange differences on translation of foreign operations	30,274,868	(1,890,682)	(4,373,108)
<b>Total comprehensive loss for the year</b>	<b><u>(95,298,773)</u></b>	<b><u>(87,775,610)</u></b>	<b><u>(67,861,366)</u></b>
<b>Loss for the year attributable to:</b>			
Owners of the Company			
– Continuing operations	(115,512,441)	(84,456,100)	(49,077,100)
– Discontinued operation	(182,954)	(902,858)	(11,657,764)
	<b><u>(115,695,395)</u></b>	<b><u>(85,358,958)</u></b>	<b><u>(60,734,864)</u></b>
Non-controlling interests			
– Continuing operations	(9,878,246)	(525,970)	(2,753,394)
– Discontinued operation	–	–	–
	<b><u>(9,878,246)</u></b>	<b><u>(525,970)</u></b>	<b><u>(2,753,394)</u></b>
	<b><u>(125,573,641)</u></b>	<b><u>(85,884,928)</u></b>	<b><u>(63,488,258)</u></b>
<b>Total comprehensive loss for the year attributable to:</b>			
Owners of the Company	(85,420,527)	(87,249,640)	(65,150,587)
Non-controlling interests	(9,878,246)	(525,970)	(2,710,779)
	<b><u>(95,298,773)</u></b>	<b><u>(87,775,610)</u></b>	<b><u>(67,861,366)</u></b>
<b>Loss per share (HK cents per share)</b>			
From continuing and discontinued operations			
– Basic and diluted	<u>(8.32)</u>	<u>(6.13)</u>	<u>(4.37)</u>
From continuing operations			
– Basic and diluted	<u>(8.30)</u>	<u>(6.07)</u>	<u>(3.53)</u>
Dividend per share (HK\$)	<u>–</u>	<u>–</u>	<u>–</u>

As set out in the annual report of the Company (the “**2018 Annual Report**”) for the year ended 31 March 2018, the former auditor of the Company, Andes Glacier CPA Limited, considered that the consolidated financial statements do not give a true and fair view of the consolidated financial position of the Group as at 31 March 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance (the “**Adverse Opinion**”).

The basis of the Adverse Opinion as set out in the 2018 Annual Report is reproduced hereinbelow:–

**“(i) Loan receivable**

Included in the Group’s loan receivable including interest receivable of HK\$73 million at 31 March, 2018 in which loans were drawdown more than 3 years and were overdue without repayment of principal and renewal of written loan contracts. As explained by management that they were confident to have the repayments of loans. We were unable to obtain sufficient and appropriate audit evidence on the recoverability of the receivable. Therefore, we were unable to determine whether any adjustments to the receivable at 31 March, 2018 were necessary, which have a significant impact on the financial position of the Group at 31 March, 2018 and on the financial performance and the elements making up the consolidated statements of cash flows of the Group for the year ended 31 March, 2018.

**(ii) Advances to customers in margin financing**

Included in the Group’s advances to customers in margin financing of approximately HK\$16 million excluding in liquid assets was not impaired at 31 March, 2018. In addition, an amount of approximately HK\$25 million was granted to a single customer which was made up to 31% of the total amount of advances to customers in margin financing and was unable to settle on due. We were unable to obtain sufficient and appropriate audit evidence on the recoverability of the advances to customers in margin financing. Therefore, were unable to determine whether any adjustments to the advance to customers in margin financing necessary, which have a significant impact on the financial position of the Group at 31 March, 2018 and on the financial performance and the elements making up the consolidated statements of cash flows of the Group for the year ended 31 March, 2018.

**(iii) Material uncertainty related to going concern**

As discussed in note 3 to the consolidated financial statements, at 31 March, 2018, the Group had net liabilities and capital deficiency of HK\$73.2 million (2017: HK\$5.4 million) and the Group has incurred losses since 2013 and reported a loss of HK\$63 million (2017: HK\$86 million) for the year ended 31 March, 2018. Total losses for the past six years were approximately HK\$1,766 million. These conditions, along with other matters as set forth in note 3 to the consolidated financial statements, we were unable to assess the effects of the indicated the existence of a material uncertainty that may cast significant doubt on the Group’s ability to continue as a going concern.

The validity of the going concern assumption is dependent on the successful and favourable outcomes of the measures being taken by the management of the Group and the financial support from significant shareholder as described in note 3 to the consolidated financial statements. The management of the Group is of the opinion that the Group would be able to continue as a going concern. Therefore, the consolidated financial statements have been prepared on a going concern basis, and do not include any adjustments relating to the recognition of provisions or the realisation and reclassification of non-current assets and non-current liabilities that may be necessary if the Group is unable to continue as a going concern.

The main concern was the significant shareholder and the related companies can change of their intention to continue provision of financial support to the Group. We were unable to obtain sufficient appropriate audit evidence to ensure the intention of the significant shareholder and related company will not change their intention to provide continuous financial support regarding the use of going concern assumption in the preparation of the consolidated financial statements. Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised at the amounts other than which they are currently recorded in the consolidated statement of financial position at 31 March, 2018. In addition, the Group may have to recognise further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively.”

No qualified opinion in respect of the financial statements of the Group for each of the two years ended 31 March 2016 and 2017 has been issued by the former auditors of the Company, Andes Glacier CPA Limited.

## **WORKING CAPITAL**

After taking into account the financial resources available to the Group, including the internally generated funds, the available banking facilities, and the revolving loan facility in the amount of HK\$100,000,000 provided by Mr. Cheng which has been renewed to 18 July 2020, and the effect of the Disposal, the Share Sale, the Master Service Agreement and the Subscription, the Directors, after due and careful enquiry, are of the opinion that the Group will have sufficient working capital for its present requirements for at least the next 12 months from the date of this circular, in the absence of unforeseeable circumstances.

## **INDEBTEDNESS**

### **Borrowings**

As at the close of business on 30 April 2019, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had total outstanding unsecured and unguaranteed borrowings of approximately HK\$676.7 million, including (i) interest bearing promissory notes of HK\$521.7 million; (ii) interest bearing medium-term bonds of HK\$36 million; and (iii) interest free borrowings of HK\$119 million.



**Contingent liability**

As at 30 April 2019, the Group had no contingent liabilities.

**Disclaimers**

Saved as aforesaid, and apart from intra-group liabilities, and normal accounts payable, the Group did not have any loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities issued and outstanding, any authorized or otherwise created but unissued term loans or other borrowings, indebtedness in nature of borrowings, liabilities under acceptances (other than trade bills) or acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, which are either guaranteed, unguaranteed, secured, or unsecured, guarantees or other material contingent liabilities outstanding at the close of business on 30 April 2019.

The Directors confirm that there is no material change in the indebtedness and contingent liability of the Group from the close of business on 30 April 2019 to the Latest Practicable Date.

**MATERIAL CHANGE**

The Directors confirm that, save and except for the followings, there has been no material change in the financial or trading position or outlook of the Group for the period commencing from 31 March 2018 (the date to which the latest audited financial statements of the Group were made up) up to and including the Latest Practicable Date.

1. As disclosed in the third quarterly report of the Company for the nine months ended 31 December 2018 (“9M2018”):
  - (i) the Group recorded total revenue of approximately HK\$98.8 million in 9M2018, representing an increase of approximately 21.0% as compared to approximately HK\$81.6 million for the nine months ended 31 December 2017 (“9M2017”). Such increase was mainly attributable to the increase in revenue generated from financial services business of approximately HK\$34.3 million;
  - (ii) the Group recorded gross profit of approximately HK\$64.6 million in 9M2018, representing a significant increase of approximately 43.7% as compared to approximately HK\$44.9 million in 9M2017 and the gross profit margin increased by approximately 10.3 percentage points from approximately 55.1% in 9M2017 to 65.4% in 9M2018. Such increase was mainly attributable to the increase in the proportion of the revenue generated from the financial services which has higher gross profit margin than that generated from equine services; and
  - (iii) the Group recorded loss attributable to equity holders of the Company of approximately HK\$77.1 million in 9M2018, representing a significant increase of approximately 109.3% as compared to approximately HK\$36.8 million in 9M2017. The deterioration was mainly due to the increase in administrative cost of approximately HK\$51.6

million, which was partially offset by the increase in gross profit of approximately HK\$19.7 million.

2. As disclosed in the announcement of the Company dated 13 August 2018, Sun Finance Company Limited (“**Sun Finance**”), a licensed money lender and a wholly-owned subsidiary of the Company, issued a writ of summons against an individual who is a third party independent of and not connected with the Company and its connected person (as defined under the GEM Listing Rules) for, pursuant to the Loan Agreement, the outstanding principal of HK\$30,000,000 and outstanding interest of HK\$1,998,318 (up to and including interest of 2 August 2018) (the “**Outstanding Sum**”) and further monthly interest payments accruing at contractual interest rate of 36% per annum on the Outstanding Sum from 3 August 2018 until payment or alternatively, interest pursuant to sections 48 and 49 of the High Court Ordinance (Cap. 4) or at such rate and for such period as the court may think fit, and costs. The loan is secured by all the monies, deposit(s), equity(ies) or any other assets under the securities trading account maintained by the borrower with Sun International Securities Limited, a wholly-owned subsidiary of the Company, in which certain securities listed on the Stock Exchange are deposited.

## FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The region’s economic outlook remained modest with elevated risk of slowdown in economic growth as well as higher volatility in the financial markets. On the one hand, this is unlikely to have any material impact on the equine services business which will further solidify its foundation for growth. Upon completion of the Share Sale, the Group will cease to carry on the pre-training and trading of thoroughbred horses and will focus on the provision the breeding service. With its enhanced facilities, the Group will continue to offer superior service to our clients and take our brand to the global stage. On the other hand, this presents both opportunities and challenges for the financial services segment. The continuous liberalization of the PRC financial market and its integration with the Hong Kong financial market would provide opportunities for the Group to offer more professional services to investors and small and medium sized enterprises in China. Further, potential development opportunities may arise from favorable policies, such as the PRC’s Belt and Road Initiative and the reform of the Hong Kong stock market. However, the results of the Group’s financial services segment would be heavily influenced by the performance of the stock markets in China and Hong Kong.

The Group would continue to use its best endeavor to improve the efficiency and effectiveness of the operation. Moreover, the board of directors would seek opportunities to establish strategic alliance to accelerate the growth of its businesses, to rebalance its business portfolio and to strengthen its financial position so as to create value for shareholders.

Further, upon Disposal Completion, Share Sale Completion and Subscription Completion, (i) the net liabilities position of the Company will be improved due to the offsetting of part of the principal amount and the outstanding interest accrued up to 31 December 2018 of the Promissory Notes and the entire principal amount of the Sun Finance Loan; (ii) the annual interest expenses of the Company in relation to the Promissory Notes will be reduced by approximately HK\$19,024,000 during the term of the Promissory Note 2 and the Promissory Note 3; (iii) the net loss position of the Company may be alleviated due to the reduction in the interest expenses for the Promissory Notes; and (iv) the going concern issue of the Company may be alleviated.

**RESPONSIBILITY STATEMENT**

This circular, 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 Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular 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 misleading.

This circular includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Group. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than those relating to the Disposal Purchaser, the Share Sale Purchaser and the Subscriber) and confirm having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by the respective directors of the Disposal Purchaser, the Share Sale Purchaser and the Subscriber) have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The directors of the Disposal Purchaser, namely, Ms. To Hoi Man and the spouse of Mr. Cheng, Ms. Yeung So Mui, and Mr. Cheng jointly and severally accept full responsibility for the accuracy of the information relating to the Disposal Purchaser contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed by the directors of the Disposal Purchaser in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The directors of the Share Sale Purchaser, namely, Mr. Cheng and his spouse, Ms. Yeung So Mui, jointly and severally accept full responsibility for the accuracy of the information relating to the Share Sale Purchaser contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed by the directors of the Share Sale Purchaser in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The directors of the Subscriber, namely Mr. Cheng and Mr. Chau, jointly and severally accept full responsibility for the accuracy of the information relating to the Subscriber contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed by the directors of the Subscriber in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

## SHARE CAPITAL

The authorized and issued share capital of the Company as at the Latest Practicable Date was, and as a result of the allotment and issue of the Subscription Shares will be, as follows:

<i>Authorized share capital:</i>		<i>HK\$</i>
40,000,000,000	Shares as at the Latest Practicable Date	<u>1,600,000,000</u>
<i>Issued and fully paid share capital or credited as fully paid:</i>		
1,391,400,000	Shares as at the Latest Practicable Date	55,656,000
780,332,000	Subscription Shares to be issued upon Subscription Completion	<u>31,213,280</u>
2,171,732,000	Total	<u>86,869,280</u>

The nominal value of the Shares and the Subscription Shares is HK\$0.04 each. All the existing issued Shares rank pari passu in all respects including all rights as to dividends, voting and capital. The Subscription Shares to be issued upon Subscription Completion will rank pari passu in all respects with the existing Shares on the relevant date of allotment.

Since 31 March 2018, the date of which the latest audited financial statement of the Company was made up, and up to the Latest Practicable Date, the Company has not issued any Share.

As at the Latest Practicable Date, there are Outstanding Options pursuant to which 198,492,924 Shares may be issued upon exercise of the Outstanding Options. Save as disclosed above, the Company does not have any outstanding options, warrants or derivatives or other securities which are convertible into Shares as at the Latest Practicable Date.

**MARKET PRICES**

The table below shows the closing price of the Shares on the Stock Exchange on (i) the last trading day of the Stock Exchange for each calendar month during the Relevant Period; (ii) the Last Trading Day; and (iii) the Latest Practicable Date:

<b>Date</b>	<b>Closing price per Share HK\$</b>
31 August 2018	0.640
28 September 2018	0.630
31 October 2018	0.405
30 November 2018	0.430
31 December 2018	0.355
31 January 2019	0.275
14 February 2019 (being the Last Trading Day and the date of the Disposal Agreement, the Share Sale Agreement and the Subscription Agreement)	0.285
28 February 2019	0.290
29 March 2019	0.325
30 April 2019	0.360
31 May 2019	0.375
Latest Practicable Date	0.360

The highest and lowest closing prices of the Shares recorded on the Stock Exchange during the Relevant Period were HK\$0.68 on 22 August 2018 and 20 September 2018 and HK\$0.27 on 1 February 2019 respectively.

**DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES**

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of the Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to Rule 5.46 to Rule 5.67 of the GEM Listing Rules; or (iv) which are required to be disclosed under the Takeovers Code, were as follows:

## Long positions in the Shares and underlying shares of the Company

Name of Director	Capacity	Number of issued Shares and underlying shares held	Percentage of the issued share capital of the Company (Note 7)
Mr. Cheng Ting Kong	Interest of a controlled corporation	654,677,040 (Notes 1 & 2)	47.05%
	Interest of a controlled corporation	780,332,000 (Notes 1 & 3)	56.08%
	Beneficial owner	1,251,250 (Note 4)	0.09%
Ms. Cheng Mei Ching	Beneficial owner	25,464,958 (Note 5)	1.83%
Mr. Lui Man Wah	Beneficial owner	13,914,000 (Note 6)	1.00%

## Notes:

1. First Cheer Holdings Limited is beneficially owned as to 50% by Mr. Chau Cheok Wa, and as to 50% by Mr. Cheng Ting Kong, as at the Latest Practicable Date.
2. These ordinary shares are held by First Cheer Holdings Limited as at the Latest Practicable Date.
3. These Shares are the Subscription Shares which the Subscriber is deemed to be interested in pursuant to the SFO.
4. Such interest represents 1,251,250 underlying Shares derived from the share options granted to Mr. Cheng Ting Kong under the share option scheme adopted by the Company.
5. Such interest represents 25,464,958 underlying Shares derived from the share options granted to Ms. Cheng Mei Ching under the share option scheme adopted by the Company.
6. Such interest represents 13,914,000 underlying Shares derived from the share options granted to Mr. Lui Man Wah under the share option scheme adopted by the Company.
7. The percentage is calculated based on the total number of issued Shares (i.e. 1,391,400,000 Shares) as at the Latest Practicable Date.

### Long positions in the Shares and underlying shares of the associated corporation

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the Shares and underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) where were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to Rule 5.46 to Rule 5.67 of the GEM Listing Rules; or (iv) which are required to be disclosed under the Takeovers Code.

### SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following person (not being Directors or chief executive of the Company) had, or was deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

#### Long positions in the Shares and underlying shares of the Company

Name of Substantial shareholders	Capacity	Number of issued Shares and underlying shares held	Percentage of the issued share capital of the Company (Note 5)
First Cheer Holdings Limited (Note 1)	Beneficial owner	654,677,040 (Note 2)	47.05%
	Beneficial owner	780,332,000 (Note 3)	56.08%
Mr. Chau Cheok Wa	Interest of a controlled corporation	654,677,040 (Notes 1 & 2)	47.05%
	Interest of a controlled corporation	780,332,000 (Notes 1 & 3)	56.08%
	Beneficial owner	1,251,250 (Note 4)	0.09%

*Notes:*

1. First Cheer Holdings Limited is beneficially owned as to 50% by Mr. Chau Cheok Wa, and as to 50% by Mr. Cheng Ting Kong, as at the Latest Practicable Date.
2. These ordinary shares are held by First Cheer Holdings Limited as at the Latest Practicable Date.
3. These Shares are the Subscription Shares which the Subscriber is deemed to be interested in pursuant to the SFO.
4. Such interest represents 1,251,250 underlying Shares derived from the share options granted to Mr. Chau Cheok Wa under the share option scheme adopted by the Company.
5. The percentage is calculated based on the total number of issued Shares (i.e. 1,391,400,000 Shares) as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

**ADDITIONAL DISCLOSURE OF SHAREHOLDING AND DEALINGS PURSUANT TO THE TAKEOVERS CODE**

The shareholding of the Subscriber and the parties acting in concert with it in the Company as at the Latest Practicable Date are set out in the section headed “Change in shareholding structure” in the letter from the Board.

As at the Latest Practicable Date, the Company had no shareholding interest or any relevant securities (as defined in note 4 to Rule 22 of the Takeovers Code) in the Subscriber, nor had the Company dealt for value in any shares or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Subscriber.

Save as set out in the paragraphs headed “Directors’ and Chief Executives’ Interests in Shares and Underlying Shares” and “Substantial Shareholders’ Interests in Shares and Underlying Shares” above, as at the Latest Practicable Date, none of the directors of the Subscriber was interested in any Shares or any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company nor had the directors of the Subscriber dealt for value in any Shares or any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period, save for the Subscription Shares.



Save as set out in the paragraphs headed “Directors’ and Chief Executives’ Interests in Shares and Underlying Shares” and “Substantial Shareholders’ Interests in Shares and Underlying Shares” above, as at the Latest Practicable Date, none of the Subscriber and any person acting in concert with it owned or controlled any Shares or other securities of the Company. Save for the entering into of the Subscription Agreement, none of the Subscriber and any person acting in concert with it had dealt for value in relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) during the Relevant Period.

As at the Latest Practicable Date, none of the Subscriber and any person acting in concert with it had any arrangement of the kind described in Note 8 to Rule 22 of the Takeovers Code with any person.

As at the Latest Practicable Date, save for the Disposal Agreement, the Subscription Agreement and the transactions contemplated thereunder, there was no agreement, arrangement or understanding (including any compensation arrangement) between the Subscriber and any person acting in concert with it and any Director, recent Director, shareholder or recent shareholder of the Company which had any connection with or dependence upon the Disposal, the Subscription, the Special Deal (Disposal) and/or the Whitewash Waiver.

As at the Latest Practicable Date, save as disclosed in the paragraphs headed “Directors’ and Chief Executives’ Interests in Shares and Underlying Shares” and “Substantial Shareholders’ Interests in Shares and Underlying Shares” above, none of the Directors was interested in any Shares or relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company and in any shares or other securities of the Subscriber. During the Relevant Period, save for the Subscription Shares, none of the Directors had dealt for value in any Shares or relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company and in any shares or other securities of the Company.

As at the Latest Practicable Date, no shareholding in the Company was owned or controlled by a subsidiary of the Company or by a pension fund of any member of the Group or by Astrum Capital and none of the advisers to the Company as specified in class (2) of the definition of associate in the Takeovers Code owned or had any interest in any Shares or other securities of the Company.

As at the Latest Practicable Date, no person had any arrangement of the kind as described to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (2), (3) and (4) of the definition of associate under the Takeovers Code.

As at the Latest Practicable Date, no shareholding in the Company was managed on a discretionary basis by fund managers connected with the Company.

As at the Latest Practicable Date, no benefit would be given to any Director as compensation for loss of office or otherwise in connection with the Disposal, the Subscription, Whitewash Waiver and/or the Special Deal (Disposal).

As at the Latest Practicable Date, save for the Disposal Agreement, the Subscription Agreement and the transactions contemplated thereunder, there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Disposal, the Subscription, the Special Deal (Disposal) and/or the Whitewash Waiver or otherwise connected with any of them.

As at the Latest Practicable Date, save for (i) the Disposal Agreement, the Subscription Agreement and the Share Sale Agreement; (ii) the 2017 Master Service Agreement; (iii) the agreements in relation to the margin securities accounts and/or cash securities accounts maintained by Mr. Chau, Mr. Cheng, the companies controlled by Mr. Chau and/or Mr. Cheng, Ms. Yeung So Mui (being the spouse of Mr. Cheng), Mr. Lui Man Wah (being an executive Director) and Ms. Cheng Mei Ching (being an executive Director) with Sun International Securities Limited (“SISL”), a subsidiary of the Company, where the outstanding margin loan thereunder and the interest accrued thereon (if any) has been repaid in full as at the Latest Practicable Date; (iv) the sale and purchase agreement dated 4 April 2019 and entered into between Mr. Chau (as the purchaser) and Simple Cheer Limited (a company wholly-owned by Mr. Cheng, as the vendor) in relation to the sale and purchase of 287,549,682 shares of Sage International Group Limited (the issued shares of which are listed on GEM, stock code: 8082, “Sage International”), completion of which took place on 4 April 2019; and (v) the service agreement dated 4 April 2019 and entered into between Mr. Chau and SISL, pursuant to which SISL agreed to provide services to Mr. Chau in relation to the mandatory unconditional cash offer by SISL for and on behalf of Mr. Chau to acquire all the issued shares and to cancel all the outstanding options of Sage International (other than those already owned and agreed to be acquired by Mr. Chau and parties acting in concert with him), there was no material contracts which have been entered into by the Subscriber and any person acting in concert with them in which any Director has a material personal interest.

No Shares acquired by the Subscriber and any person acting in concert with it in pursuance of the Subscription will be transferred, charged or pledged to any other persons.

As at the Latest Practicable Date, there was no shareholding in the Company which the Subscriber or any person acting in concert with it has borrowed or lent, and there were no dealings in the Shares or other securities of the Company by the Subscriber or any person acting in concert with it has borrowed or lent the Shares or other securities of the Company during the Relevant Period.

As at the Latest Practicable Date, there was no shareholding in the Company which the Company or the Directors has/have borrowed or lent, and there were no dealings in the Shares or other securities of the Company by any person which the Company or the Directors has/have borrowed or lent the Shares or other securities in the Company during the Relevant Period.

The Subscriber and the associates and any parties acting in concert with any of them, Mr. Cheng, and any other Shareholders who are involved or interested in the Disposal Agreement, the Subscription Agreement, the Share Sale Agreement, the Master Service Agreement, the Special Deals and/or the Whitewash Waiver shall abstain from voting on the resolutions approving the Disposal Agreement, the Subscription Agreement, the Share Sale Agreement, the Master Service Agreement, the transactions contemplated thereunder, the Special Deals and the Whitewash Waiver at the EGM. As at the Latest Practicable Date, the other Directors did not have any Shares or relevant securities of the Company (as defined under note 4 to Rule 22 of the Takeover Code) and thus will not vote on the resolution approving

the Disposal Agreement, the Subscription Agreement, the Share Sale Agreement, the Master Service Agreement, the transactions contemplated thereunder, the Special Deals and the Whitewash Waiver at the EGM.

As at the Latest Practicable Date, there was no shareholding in the Company owned or controlled by any persons who, prior to the posting of this circular, have irrevocably committed themselves to vote for or against the Disposal Agreement, the Subscription Agreement and the transactions contemplated thereunder, the Special Deals and the Whitewash Waiver.

### **DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, saved as disclosed below, none of the Directors had any existing or proposed service contract with the Group or associated companies which: (i) has been entered into or amended within 6 months before the date of the Announcement, or (ii) is continuous contract with a notice period of 12 months or more, or (iii) is fixed term contract with more than 12 months to run irrespective of the notice period, or (iv) is not determinable by the employer within one year without payment of compensation (other than statutory compensation):

On 1 September 2018, Mr. Jim Ka Shun has entered into a letter of appointment with the Company for a term of one year commencing from 1 September 2018 with a quarterly emolument of HK\$30,000 (which is the same as the previous letter of appointment).

### **COMPETING INTERESTS**

As at the Latest Practicable Date, none of the Directors, the controlling shareholders of the Company or their respective close associates had any interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group and/or has or may have any conflict of interest with the Group.

### **INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP**

Save for the Disposal Agreement, the Share Sale Agreement, the Subscription Agreement and the 2017 Master Service Agreement and the transactions contemplated thereunder:

- none of the Directors has any direct or indirect interests in any assets which have been acquired or disposed of by or leased to, or which are proposed to be acquired or disposed of by or leased to, the Group since 31 March 2018, the date to which the latest published audited consolidated financial statements of the Group were made up; and
- there is no contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date in which any Director is materially interested and which is significant to the business of the Group.

**LITIGATION**

As disclosed in the announcements of the Company dated 4 April 2019 and 8 April 2019 respectively, Guangdong Higher People's Court has been directed by the Supreme People's Court of the People's Republic of China (the "PRC") to hear the claim (the "Claim") made by Chiu Ming ("Mr. Chiu") and Diamond Ocean Development Limited ("Diamond Ocean") against, amongst others, Sun Finance Company Limited ("Sun Finance"), a wholly-owned subsidiary of the Company, Mr. Cheng, a controlling shareholder of the Company and an executive Director and Mr. Chau, a controlling shareholder of the Company, in relation to, among others, the enforcement of the share charge in 2011 over certain shares (the "Charged Shares") of a listed company (the "Listed Company") in Hong Kong provided by Diamond Ocean, being the security for a loan provided by Sun Finance to Diamond Ocean, which was alleged by Mr. Chiu and Diamond Ocean to have infringed their rights. According to the Claim, Mr. Chiu and Diamond Ocean requested the court to order Sun Finance, Mr. Cheng and Mr. Chau to compensate Mr. Chiu and Diamond Ocean for direct economic loss of RMB500 million and bear all the litigation costs. In addition, Mr. Chiu and Diamond Ocean will seek compensation for indirect loss after the valuation company engaged by the court has assessed the assets of a PRC subsidiary (the "PRC Subsidiary") of the Listed Company.

As at the Latest Practicable Date, no hearing notice issued by Guangdong Higher People's Court has been received by Sun Finance, Mr. Cheng and Mr. Chau.

According to the legal advice by the PRC legal advisers to Sun Finance, the chances of success of the Claim are very low. The PRC legal advisers consider that, among others, (i) there is not enough basis to support the allegation that the disposal of the Charged Shares was illegal; (ii) the alleged change of the legal representative of the PRC Subsidiary by the defendants by illegal means is not in conformity with the fact and irrelevant to the Claim; (iii) the amount of the direct loss alleged by the plaintiffs is lack of basis and no definite amount can be derived from the materials provided by the plaintiffs; and (iv) the limitation period of two years for making the Claim have expired.

In order to remove any uncertainty arising from the Claim on the Group, on 4 April 2019, Mr. Cheng executed a deed of indemnity in favour of the Company (for itself and as trustee of Sun Finance and the intermediate holding company of Sun Finance), whereby Mr. Cheng agreed to indemnify and keep the Company (for itself and as trustee of Sun Finance and the intermediate holding company of Sun Finance) indemnified against all loss and damages arising out of or in relation to the Claim.

Having considered the aforementioned factors, the Board considers that the Claim is unlikely to have any material adverse impact on the Group and no provision is required to be made in relation to the same.

As at the Latest Practicable Date, save as disclosed above and save for the Litigation, no member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

**MATERIAL CONTRACTS**

The following material contracts (not being contracts in the ordinary course of business) have been entered into by the members of the Group within the two years immediately preceding the date of the Announcement (14 February 2019) up to and including the Latest Practicable Date.

- (a) a loan agreement dated 14 November 2016 (as amended and supplemented by the extension loan agreements dated 14 December 2016, 14 January 2017, 14 February 2017, 14 March 2017, 14 April 2017, 14 May 2017, 14 June 2017, 14 July 2017, 14 August 2017, 14 September 2017, 14 October 2017, 14 November 2017, 14 December 2017, 14 January 2018, 14 February 2018, 14 March 2018, 14 April 2018 and 14 May 2018 respectively) entered into between a wholly-owned subsidiary of the Company (as a lender), and an independent customer (as a borrower); pursuant to which a wholly-owned subsidiary of the Company agreed to provide the secured loan in the amount of HK\$15,000,000 for a term ended 13 August 2018;
- (b) a facility letter dated 13 November 2016 (as amended and supplemented by the extension facility letters dated 14 December 2016, 14 January 2017, 14 February 2017, 14 March 2017, 14 April 2017, 14 May 2017, 14 June 2017, 14 July 2017, 14 August 2017, 14 September 2017, 14 October 2017, 14 November 2017, 14 December 2017, 14 January 2018, 14 February 2018, 14 March 2018, 14 April 2018 and 14 May 2018 respectively) entered into between a wholly-owned subsidiary of the Company (as a lender), and an independent customer (as a borrower); pursuant to which the wholly-owned subsidiary of the Company agreed to provide the secured loan in the amount of HK\$18,000,000 for a term ended 13 August 2018 (which may be renewed for further consecutive terms of one month each with the consent of the lender);
- (c) a placing agreement dated 8 June 2017 entered into between the Company (as issuer) and the Sun International Securities Limited (as placing agent), a wholly-owned subsidiary of the Company, in respect of placing of bonds with an aggregate principal amount of up to HK\$50,000,000;
- (d) the sale and purchase agreement dated 29 September 2017 (as amended and supplemented by an extension letter dated 20 December 2017) and entered into among (i) the PN Holder 2, the PN Holder 3 and the PN Holder 4 (as vendors); (ii) Mr. Chau and Mr. Cheng (as guarantors); and (iii) Pioneer Frontier Limited (a wholly-owned subsidiary of the Company) (as purchaser); pursuant to which the vendors conditionally agreed to sell and the purchaser conditionally agreed to acquire the entire issued share capital of Sun Finance Company Limited at a total consideration of HK\$378,000,000;
- (e) a loan facility letter dated 15 May 2018 entered into between a wholly-owned subsidiary of the Company (as a lender), and an independent customer (as a borrower); pursuant to which the wholly-owned subsidiary of the Company agreed to provide the secured loan in the amount of HK\$24,000,000 for a term of six months from the drawdown date;

- (f) a loan agreement dated 20 June 2018 entered into between a wholly-owned subsidiary of the Company (as a lender), and an independent customer (as a borrower); pursuant to which the wholly-owned subsidiary of the Company agreed to provide the secured loan in the amount of HK\$30,000,000 for a term of three months from the drawdown date (which is extendable to six months at the request of the customer);
- (g) a loan facility letter dated 20 June 2018 entered into between a wholly-owned subsidiary of the Company (as a lender), and an independent customer (as a borrower); pursuant to which the wholly-owned subsidiary of the Company agreed to provide the unsecured loan in the amount of HK\$15,000,000 for a term of six months from the drawdown date and renewable for a further term of six months;
- (h) a loan facility letter dated 6 August 2018 entered into between a wholly-owned subsidiary of the Company (as a lender), and an independent customer (as a borrower); pursuant to which the wholly-owned subsidiary of the Company agreed to provide the unsecured loan in the amount of HK\$20,000,000 for a term of twelve months from the drawdown date (or such other date and on such other terms as mutually agreed between the wholly-owned subsidiary of the Company and the customer);
- (i) a deed of settlement dated 11 September 2018 and entered into between a wholly-owned subsidiary of the Company, and two independent customers; pursuant to which the two independent customers undertook to the wholly-owned subsidiary of the Company jointly and severally to make full repayment of the principals and interest payable under the previous loan agreements by payment of the unpaid sum in the amount of HK\$49,839,000;
- (j) a loan agreement dated 28 February 2017 (as amended and supplemented by the supplemental loan agreement dated 23 November 2018) entered into between a wholly-owned subsidiary of the Company (as a lender), and an independent customer (as a borrower); pursuant to which the wholly-owned subsidiary of the Company agreed to provide the secured loan in the amount of HK\$35,000,000 for a term of commencing from the drawdown date to 28 February 2019 (which may be extended for twelve months at the option of the wholly-owned subsidiary of the Company);
- (k) a loan agreement dated 23 November 2018 entered into between a wholly-owned subsidiary of the Company (as a lender), and an independent customer (as a borrower); pursuant to which the wholly-owned subsidiary of the Company agreed to provide the secured loan in the amount of HK\$10,000,000 for a term of twelve months from the drawdown date (which may be extended for twelve months or such other period if so agreed between the wholly-owned subsidiary of the Company and the independent customer);
- (l) a loan agreement dated 23 January 2019 entered into between a wholly-owned subsidiary of the Company (as a lender), and an independent customer (as a borrower); pursuant to which the wholly-owned subsidiary of the Company agreed to provide the secured loan in the amount of HK\$24,000,000 for term of sixty months from the drawdown date (or such other date or such other terms as mutually agreed by the wholly-owned subsidiary of the Company and the customer);

- (m) the Disposal Agreement;
- (n) the Share Sale Agreement;
- (o) the Subscription Agreement; and
- (p) the Extension Letters.

Certain personal information contained in items (e), (f), (g), (h), (i), (j), (l) and (m) in the copies to be available for inspection (i) on the website of the SFC (<http://www.sfc.hk/>); and (ii) on the website of the Company (<http://www.sun8029.com>) in the manner described in the paragraph headed “Documents available for inspection” in this appendix has been redacted on the basis that (1) it is personal data; and (2) individually or taken together with other disclosures, such redacted information is not material information for Shareholders to reach an informed decision as to how to vote at the EGM. For the avoidance of doubt, there will not be any redaction on the documents available for inspection at the principal place of business of the Company in Hong Kong at Units 2414–2418, 24/F., China Merchants Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong in the manner described in the paragraph headed “Documents available for inspection” in this appendix.

#### AUDIT COMMITTEE

As at the Latest Practicable Date, the audit committee comprises three members, Mr. Tou Kin Chuen, Mr. Chan Tin Lup Trevor, Mr. Jim Ka Shun, being all the independent non-executive Directors. The primary duties of the audit committee are to review and supervise the financial reporting process, audit plan and relationship with external auditors, the internal control systems of the Group and to provide advices and recommendations to the Board for review and follow-up.

**Mr. Tou Kin Chuen**, aged 42, is the independent non-executive Director of Suncity Group Holdings Limited (Stock Code: 1383), is the principal of Roger K.C. Tou & Co., Mr. Tou graduated from the Hong Kong Shue Yan University (formerly known as Hong Kong Shue Yan College) with a honours diploma in accounting in 2001. He is experienced in audit, taxation, company secretarial, insolvency and finance for over 15 years. Mr. Tou Kin Chuen is a member of the Hong Kong Institute of Certified Public Accountants and an associate of the Taxation Institute of Hong Kong.

**Mr. Chan Tin Lup, Trevor**, aged 59, has been in the legal field for over 20 years. He received his law degree from the University of London and his postgraduate diploma in legal practice from the University of Wolverhampton with commendation. Mr. Chan Tin Lup, Trevor has been an independent non-executive director of National Arts Entertainment and Culture Group Limited (Stock Code: 8228), a company registered in Bermuda and the shares of which are listed on GEM, since 13 May 2009.

**Mr. Jim Ka Shun**, aged 37, is a holder of bachelor of engineering in computer engineering from The Hong Kong University of Science and Technology in 2004. Mr. Jim Ka Shun is a Financial Risk Manager (FRM) of the Global Association of Risk Professionals and a licensed person to carry out Type 9 (asset management) regulated activity under the SFO. Mr. Jim Ka Shun has over 10 years of relevant experience in financial industry, including the asset management sector. He is currently the executive director and Types 4 and 9 responsible officer of Seeds International Asset Management Limited.

**EXPERTS AND CONSENTS**

The following are the names and qualifications of the experts who have given its opinions and advice which are included in this circular:

<b>Name</b>	<b>Qualification</b>
HLB Hodgson Impey Cheng Limited	Certified Public Accountants
Astrum Capital Management Limited	a licensed corporation permitted to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO

None of the experts above has any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of the experts above has given and has not withdrawn its written consent to the issue of this circular, with the inclusion of the references to its name and/or its opinion in the form and context in which they are included.

None of the experts above had any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group since 31 March 2018, the date to which the latest published audited financial statements of the Group were made up.

**MISCELLANEOUS**

The registered address of the Subscriber is situated at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands. The Subscriber is beneficially owned as to 50% by Mr. Chau and as to 50% by Mr. Cheng and the directors of the Subscriber are Mr. Chau and Mr. Cheng.

The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company in Hong Kong is located at Units 2414–2418, 24/F., China Merchants Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong.

The secretary of the Company is Mr. Chung Sze Fat (“**Mr. Chung**”), who is a member of the Hong Kong Institute of Certified Public Accountants and fellow member of the Association of Chartered Certified Accountants.



The share registrar and transfer office of the Company is Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

The registered address of Astrum Capital is situated at Room 2704, Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong.

In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

#### **DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours (Saturdays and public holidays excepted) from 10:00 a.m. to 12:30 p.m. and from 2:30 p.m. to 5:00 p.m. at (i) the principal place of business of the Company in Hong Kong at Units 2414–2418, 24/F., China Merchants Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong; (ii) on the website of the SFC (<http://www.sfc.hk/>); and (iii) on the website of the Company (<http://www.sun8029.com>) during the period from the date of this circular up to the date of the EGM:

- (a) the memorandum and articles of association of the Company;
- (b) the letter from the Board, the text of which is set out in the section headed "Letter from the Board" in this circular;
- (c) the letter from the Independent Board Committee containing its advice to the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Board Committee" in this circular;
- (d) the letter from Astrum Capital containing its advice to the Independent Board Committees and the Independent Shareholders, the text of which is set out in the section headed "Letter from Astrum Capital" in this circular;
- (e) the annual reports of the Company for each of the two years ended 31 March 2018;
- (f) the letters of consent referred to under the paragraph headed "Experts and consents" in this appendix;
- (g) the material contracts referred to in the paragraph headed "Material contracts" in this appendix;
- (h) the letter of appointment referred to in the paragraph headed "Directors' service contracts" in this appendix; and
- (i) this circular.

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## NOTICE OF EGM

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**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)**

### NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “**EGM**”) of Sun International Group Limited (the “**Company**”) will be held at Units 2414-2418, 24/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on Monday, 24 June 2019 at 10:30 a.m. for the purposes of considering and, if thought fit, passing the following resolutions of the Company. Unless the context requires otherwise, capitalized terms used herein shall have the same meanings as defined in the circular of the Company dated 6 June 2019 (the “**Circular**”).

#### ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) the sale and purchase agreement (the “**Disposal Agreement**”) entered into between Sun Finance Company Limited (the “**Disposal Vendor**”) and Imperium Credit Limited (the “**Disposal Purchaser**”) dated 14 February 2019 (as amended and supplemented by an extension letter dated 28 March 2019 and as amended and restated by an amended and restated disposal agreement dated 24 May 2019) in relation to the disposal (the “**Disposal**”) of the Sale Interest, a copy of the Disposal Agreement having been produced to the EGM and marked “A” and initialed by the chairman of the EGM for the purpose of identification, and the transactions contemplated thereunder, including as a special deal under Rule 25 of the Hong Kong Code on Takeovers and Mergers, be and are hereby approved, confirmed and ratified;
- (b) the board of directors of the Company (the “**Board**”) be and is hereby authorised to do all such acts and things and sign all such documents and to take such steps as it considers necessary or expedient or desirable in connection with or to give effect to the Disposal Agreement and the transactions contemplated thereunder and to agree to such variation, amendment or waiver as are, in the opinion of the Board, in the interests of the Company.”

2. “**THAT:**

- (a) the share sale agreement (the “**Share Sale Agreement**”) entered into between Sun Macro Limited (the “**Share Sale Vendor**”), Prestige Summit Investments Limited (the “**Share Sale Purchaser**”) and Sun Kingdom Pty Ltd (the “**Target Company**”) dated

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## NOTICE OF EGM

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14 February 2019 (as amended and supplemented by an deed of amendment dated 28 March 2019) in relation to the disposal (the “**Share Sale**”) of the entire issued share capital of the Target Company, a copy of the Share Sale Agreement having been produced to the EGM and marked “B” and initialed by the chairman of the EGM for the purpose of identification, and the transactions contemplated thereunder, including as a special deal under Rule 25 of the Hong Kong Code on Takeovers and Mergers, be and are hereby approved, confirmed and ratified;

- (b) the Board be and is hereby authorised to do all such acts and things and sign all such documents and to take such steps as it considers necessary or expedient or desirable in connection with or to give effect to the Share Sale Agreement and the transactions contemplated thereunder and to agree to such variation, amendment or waiver as are, in the opinion of the Board, in the interests of the Company.”

3. “**THAT:**

- (a) the master service agreement (the “**Master Service Agreement**”) to be entered into between Sun Stud Pty Limited (“**Sun Stud**”) and the Target Company in relation to the provision of the horse racing related services including but not limited to breeding, rearing, sales, agistment, spelling, education, administration, advice and training of horses to be provided by Sun Stud or any member of the Sun Stud Group to the Target Company or its Affiliates and/or such other services as shall be agreed by the parties to the Master Service Agreement in writing from time to time, a copy of the Master Service Agreement having been produced to the EGM and marked “C” and initialed by the chairman of the EGM for the purpose of identification, the annual caps and the transactions contemplated thereunder, including as a special deal under Rule 25 of the Hong Kong Code on Takeovers and Mergers, be and are hereby approved, confirmed and ratified;
- (b) the Board be and is hereby authorised to do all such acts and things and sign all such documents and to take such steps as it considers necessary or expedient or desirable in connection with or to give effect to the Master Service Agreement and the transactions contemplated thereunder and to agree to such variation, amendment or waiver as are, in the opinion of the Board, in the interests of the Company.”

4. “**THAT:**

- (a) the subscription agreement (the “**Subscription Agreement**”) entered into between the Company and First Cheer Holdings Limited (the “**Subscriber**”) dated 14 February 2019 (as amended and supplemented by an extension letter dated 28 March 2019 and as amended and restated by an amended and restated subscription agreement dated 24 May 2019) in relation to the subscription of 780,332,000 new shares (the “**Subscription Share(s)**”) of the Company of HK\$0.04 each at the subscription price of HK\$0.345 per Subscription Share, a copy of the Subscription Agreement having been produced to the EGM and marked “D” and initialed by the chairman of the EGM for the purpose of identification, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

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## NOTICE OF EGM

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- (b) all the transactions contemplated under the Subscription Agreement, including but not limited to the specific mandate to allot and issue the Subscription Shares by the Company to the Subscriber pursuant to the Subscription Agreement (the “**Specific Mandate**”), be and are hereby approved and the Board be and is hereby authorised to allot and issue the Subscription Shares to the Subscriber pursuant to the Subscription Agreement;
- (c) the Board be and is hereby authorised to do all such acts and things and sign all such documents and to take such steps as it considers necessary or expedient or desirable in connection with or to give effect to the Subscription Agreement and the transactions contemplated thereunder, including to the Specific Mandate, and to agree to such variation, amendment or waiver as are, in the opinion of the Board, in the interests of the Company.”
5. “**THAT:**

subject to the granting of the Whitewash Waiver (as defined below) by the executive director of the Corporate Finance Division of the Securities and Futures Commission or any delegate of the executive director and any conditions that may be imposed thereon, the waiver of obligation on the part of the Subscriber and any parties acting in concert with it to make a mandatory general offer for all the issued shares of the Company and 198,492,924 outstanding options entitled the holder thereof to subscribe for one Share at the relevant exercise price not already owned or agreed to be acquired by the Subscriber and any parties acting in concert with it which might otherwise arise as a result of the Subscriber subscribing for the Subscription Shares under the Subscription Agreement pursuant to Note 1 on Dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers (the “**Whitewash Waiver**”), be and is hereby approved, and that any one or more of the Directors be and is/are authorised to do all such acts and things and execute all such document as he/she/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to any of the matters relating to, or incidental to, the Whitewash Waiver.”

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

Hong Kong, 6 June 2019

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## NOTICE OF EGM

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*Registered Office:*

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

*Principal Place of Business in Hong Kong:*

Units 2414–2418, 24/F.  
China Merchants Tower  
Shun Tak Centre  
168–200 Connaught Road Central  
Hong Kong

*Notes:*

1. Under the Takeovers Code (as defined in the Circular), the resolution number 5 above in relation to the Whitewash Waiver shall be approved by at least 75% of the independent vote that are cast either in person or by proxy by the Independent Shareholders (as defined in the Circular) at the EGM.
2. A member entitled to attend and vote at the EGM is entitled to appoint one or more than one proxy to attend and, subject to the provisions of the articles of association of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the EGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
3. A form of proxy for use at the EGM is enclosed. Whether or not you intend to attend the EGM in person, you are encouraged to complete and return the enclosed form of proxy in accordance with the instructions printed thereon. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the EGM or any adjournment thereof, should he so wish.
4. In order to be valid, the form of proxy, together with a power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority must be deposited at the Hong Kong branch share registrar and transfer office of the Company, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof.
5. In the case of joint holders of shares, any one of such holders may vote at the Meeting, either personally or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint holder are present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.
6. In order to be eligible to attend and vote at the EGM, unregistered holders of the shares of the Company should ensure that all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 18 June 2019, being the record date for the purpose of determination of entitlement to attend and vote at the EGM.