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SUNWAY INTERNATIONAL HOLDINGS LIMITED

新威國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 58)

CLARIFICATION ON AUDITED ANNUAL RESULTS ANNOUNCEMENT

Reference is made to the announcement of Sunway International Holdings Limited (the “**Company**”) dated 31 March 2020 in respect of the unaudited annual results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2019 (the “**Unaudited Results**”) and the announcement of the Company dated 27 May 2020 in respect of the audited annual results of the Group for the year ended 31 December 2019 (the “**Audited Results**”). Unless otherwise stated, capitalised terms herein shall bear the meanings as defined in the Unaudited Results, the Audited Results and the announcement of the Company dated 20 January 2020 in respect of the provision of financial assistance.

Qualified Opinion on the Audited Results

As disclosed in the Audited Results, the Company’s auditors ZHONGHUI ANDA CPA Limited (the “**Auditors**”) issued a qualified opinion due to insufficient and appropriate audit evidence to ascertain:

- (a) the carrying amount of loan receivables of approximately HK\$741,000 as at 31 December 2019; and whether the impairment loss of loan receivables of approximately HK\$117,178,000 for the year ended 31 December 2019 should be recognised in current year; and
- (b) the carrying amount of refundable deposits paid for acquisition of subsidiaries of approximately HK\$Nil in relation to Sunway New Energy as at 31 December 2019; and whether the impairment loss of deposits paid for acquisition of subsidiaries of approximately HK\$100,000,000 for the year ended 31 December 2019 should be recognised in current year.

(the “**Qualified Opinion**”)

With respect to the loan receivables and refundable deposits, the Company had appointed an independent valuer, namely LCH (Asia-Pacific) Surveyors Limited (“**LCH**”) to assess the respective expected credit loss (“**ECL**”) under ECL model in accordance with Hong Kong Financial Reporting Standard 9 “*Financial Instruments*” (“**HKFRS 9**”). Two valuation reports both dated 30 August 2019 on loan receivables and refundable deposits were issued by LCH.

A probability of default approach was adopted in the said valuation reports to determine the ECL, i.e. $ECL = \text{exposure at default} \times \text{loss given default} \times \text{probability of default}$. (Exposure at default is the amount of loan receivables and refundable deposits that are exposed to credit risk; Loss given default is the share of a financial asset that the lender shall lose if a debtor defaults and is calculated as 1 minus recovery rate). A default probability of 100% and a recovery rate of 0% (the “**Rates**”) were applied by the independent valuer after considering the external credit rating, repayment history, past due and default status, financial position of the debtors, as well as the progress of legal actions taken by the Company for the recovery of the loan receivables and refundable deposits (the “**Factors**”).

Despite the Company had provided the Auditors with the valuation reports as impairment assessment, the Auditors were of the view that (1) they did not accept that the credit ratings quoted by LCH could be matched to the Rates and there was insufficient information to ascertain the parameters so as to justify LCH’s calculation of ECL by reference to the Factors as set out in the valuation reports in relation to both loan receivables and refundable deposits; and (2) the Auditors was unable to obtain sufficient and appropriate audit evidence for the amounts of the collaterals that were mostly likely to be recovered by the Company.

As a result, the Auditors concluded that they were unable to satisfy themselves as to the carrying amount of the loan receivables of approximately HK\$741,000 and refundable deposits of HK\$Nil as at 31 December 2019 and whether the impairment loss of loan receivables of approximately HK\$117,178,000 and refundable deposits of HK\$100,000,000 should be recognised for the year ended 31 December 2019.

With respect to the carrying amount of the loan receivables of approximately HK\$741,000, it had already been fully recovered in January 2020.

The Board of Director's position and assessment, in relation to the Qualified Opinion, are based on factual terms of the loans and deposit agreements, prudence assessment when considering the recoverability of the loans and deposits, and the uncertainty of the outcome of ongoing legal proceedings. As stated on page 79 of the Company's annual report for the year ended 31 December 2019, "*According to the loan agreements, the Loan Debtors had been in default for loans repayment for which the enforceability of the collaterals, if any, was quite difficult*". Also, as at the publish of the Audited Results on 27 May 2020, the maturity dates of the loans and deposits had already been overdue for quite a long time, in general, ranging from over 6 months to over 1 year. In addition, no subsequent settlement including interest component had been received in relation to the loans and deposits over the past one year until the publication of the Audited Results. Therefore, full impairment losses were made on these balances, of which the assessments were carried out not only be considering the abovementioned factors, but were also based on the HKFRS 9.

However, from the Auditors' perspective, the ongoing legal proceedings were still in progress which implied uncertainty on possible effects of the outcome from the legal proceedings, while there was also no sufficient audit evidence to assess the recoverable amount of underlying collaterals of loan receivables and refundable deposits.

The Audit Committee of the Company understood the different perspectives between the Auditors and the management of the Company. Further, an Audit Committee meeting was held with the Auditors, in which the Auditors had explained their concern on the uncertainty of assuring the calculation of the impairment accurately due to the fact that the ongoing legal proceedings were still in progress which implied uncertainty on possible effects of the outcome from the legal proceedings. The Audit Committee understood the details of steps taken by the Company's Board of Directors for making the impairment. All members of the Audit Committee have reviewed and agreed with the position of the Company's Board of Directors concerning the Qualified Opinion.

The Company would like to provide an update of the legal action taken for the recovery of loan receivables and refundable deposits.

In respect of the loan advanced to Huali Capital (a company registered in Hong Kong), which was guaranteed by Tailor Wealth Group Limited (“**Tailor Wealth**”), a Writ of Summons against Huali Capital had been issued in the High Court of Hong Kong under the action no. HCA 746/2020 on 21 May 2020 and had been served upon Huali Capital at its registered office on 1 June 2020. The 14-day period for Huali Capital to acknowledge the service of the Writ of Summons had expired on 15 June 2020. Since Huali Capital has failed to acknowledge service within the said period, Gallant Solicitors and Notaries (“**Gallant**”), solicitors for the Company, have applied for judgment in default on 3 July 2020. This said application will be heard at the High Court on 18 August 2020. The Company will seek further legal advice on enforcement proceedings against Huali Capital. In respect of the guarantor Tailor Wealth (a company registered in the British Virgin Islands (“**BVI**”)), legal advice had been obtained from a BVI legal firm, namely Appleby to take legal action against Tailor Wealth. Mr. Mark McDonald of Grant Thornton (British Virgin Islands) Limited, a licensed insolvency practitioner in BVI and Mr. David Bennett of Grant Thornton Recovery & Reorganisation Limited in Hong Kong have been nominated as joint liquidators. Legal documents required for winding up Tailor Wealth have been forwarded to the proposed joint liquidators for engrossment. It is expected that the liquidation of Tailor Wealth will be commenced by late August 2020 and the court process will be completed by November 2020.

In respect of the loan advanced to Mei Rui (a company registered in the BVI), legal advice had been obtained from a BVI legal firm, namely Appleby to take legal action against Mei Rui. Mr. Mark McDonald and Mr. David Bennett have been nominated as joint liquidators. Legal documents required for winding up Mei Rui have been forwarded to the proposed joint liquidators for engrossment. It is expected that the liquidation of Mei Rui will be commenced by late August 2020 and the court process will be completed by November 2020.

In respect of the loans advanced to Shenzhen Siping and Fuzhou Xufa (both companies incorporated in Mainland China), legal advice had been obtained from a legal firm in the Mainland China namely Zhuoxin Law Firm to commence legal actions against Shenzhen Siping and Fuzhou Xufa for the recovery of outstanding loan receivables. Notarization of the documents required for commencing legal actions in Mainland China had been completed. Zhuoxin Law Firm had been instructed to prepare the Statements of Claim. Comments on the final draft Statements of Claim have been sent to Zhuoxin. It is expected that the respective Statements of Claim against the said two companies will be issued in mid-August 2020.

In respect of the loans advanced to Charmate (a company registered in the BVI) which were guaranteed by Mr. Chen Zhiguo, legal advice had been obtained from a BVI legal firm namely Appleby to take legal action against Charmate. Mr. Mark McDonald and Mr. David Bennett have been nominated as joint liquidators. Legal documents required for winding up Charmate have been forwarded to the proposed joint liquidators for engrossment. It is expected that the liquidation of Charmate will be commenced by late August 2020 and the court process will be completed by November 2020. In respect of the guarantor Mr. Chen Zhiguo (being a Chinese national), legal advice had been obtained from a legal firm in Mainland China namely Zhuoxin Law Firm to commence legal action against Mr. Chen Zhiguo for the recovery of outstanding loan receivables. As Charmate was incorporated in the BVI, it is necessary to produce a Certificate of Incorporation and Certificate of Good Standing of Charmate to the PRC Court when commencing this legal action. The Certificates required for commencing legal actions in Mainland China are pending notarization. Legal action will be commenced against Mr. Chen Zhiguo in around late August 2020.

In respect of the loan advanced to Fuzhou Dongye and the subsequent assignment of loan to Sky Long, legal advice had been obtained from a Samoa legal firm, namely Leung Wai Law Firm as to the most cost-effective way to recover the loan receivables from Sky Long. Further legal advice is being sought from Leung Wai Law Firm on possible enforcement proceedings and the enforcement options available.

In respect of the refundable deposits, reference is made to the announcement of the Company dated 2 July 2019 on which Sunway New Energy had filed a writ with the Sichuan Le Shan Intermediate People's Court for the commencement of legal proceedings against, among others, the Vendor and the Guarantor for the return of the Refundable Earnest Money. On the same day, the Court had accepted the writ filed by Sunway New Energy. According to the civil ruling made by the Court on 16 July 2019, the Guarantor's assets with value within RMB100,000,000 being the shares of PRC companies (the "**PRC Companies**") owned by the Guarantor (the "**Frozen Shares**") were suspended for a period of three years.

Disposal of the Frozen Shares by Sunway New Energy is not permitted pending the Court's determination of the said proceedings. However, assets held by the PRC Companies could be freely disposed of by the Guarantor. Hence, the PRC Companies might turn into shell companies at the end.

Meanwhile, a bill of indictment had been sent to the Vendor and the legal proceedings are still in progress. The Company's PRC Counsel expects that the trial will commence during the period from October 2020 to December 2020. It may take 1 to 2 months for the Court to deliver judgment. Upon service of the judgment, the losing party has the right to lodge an appeal within 30 days from the date of service. In the event of not lodging any appeal, the winning party may enforce the judgment if the judgment sum is not paid by the losing party.

Depending on the outcome of the legal actions taken by the Company for the recovery of loan receivables and refundable deposits, together with the Factors mentioned above, the Company will discuss with the Auditors during the audit of the Company's financial statements for 2020 on whether the Qualified Opinion can be removed.

Material Differences between the Unaudited Results and Audited Results

The Company would like to provide further details in respect of the adjustments made which resulted in the material differences between the Unaudited Results and Audited Results (“**Adjustments**”).

To be consistent with last year's presentation of the audited consolidated statement of profit or loss, impairment losses of trade and other receivables are grouped in “Other losses, net”. The major reasons and the details leading to the Adjustments are as follows:

Impairment loss of trade and bill receivables

The Company assessed impairment losses of trade and bills receivables based on ECL valuation performed by an independent valuer LCH. Different weighted average expected loss rate had been applied to trade and bill receivables with different past due days (details of which are included on page 78 of the Company's annual report). For receivable amounts with past due days over 12 months, the amounts were fully impaired in the Unaudited Results. However, subsequent settlement of approximately HK\$2.4 million on receivable amounts with past due days over 12 months had been made by customers as of 27 May 2020. Therefore, the said amount of provision was reversed accordingly in the Audited Results.

Impairment loss of other receivables

The Company assessed impairment losses of other receivables based on ECL valuation performed by an independent valuer LCH. Different weighted average expected loss rate had been applied to other receivables with different past due days. For receivable amounts with past due days over 12 months, the amounts were fully impaired in the Unaudited Results. However, subsequent settlement of approximately HK\$23.6 million on receivable amounts with past due days over 12 months had been made by two counterparties as of 27 May 2020. Therefore, the said amount of provision was reversed accordingly in the Audited Results.

Impairment loss of refundable deposits paid for acquisition of subsidiaries

Regarding the deposit paid for acquisition of an Australian target company (the “**Deposit**”), the Company fully impaired the Deposit of approximately HK\$6.6 million in Unaudited Results, based on the suggestion provided by the former auditors of the Company. At the request of the Auditors, the Company appointed an independent valuer LCH to assess the recoverable amount of the Deposit. In the opinion of the management, based on the valuation report, a reversal of impairment loss of refundable deposits paid for acquisition of subsidiaries of approximately HK\$2.8 million was made in the Audited Results.

Trade and other receivables

The management assessed the impairment according to HKFRS 9 and relied on the result of ECL valuation. However, as concurred with the Auditors, the management further made reference to the subsequent settlement and hence reversed several provisions for impairment as mentioned above.

The specific steps taken by the Company’s Directors prior to publication of the Unaudited Results on 31 March 2020 are as follows:

(I) Impairment of loan receivables

After obtaining a money lenders licence under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong) on 11 February 2016, the Company had commenced the money lending business by entering into different loan agreements with various customers.

During the preparation of the 2019 Interim Report, the Company was aware that loan receivables mainly from six borrowers (and their guarantors, if any) (together known as the “**Loan Debtors**”) of the Group were overdue, which were amount due from Shenzhen Siping, Fuzhou Xufa, Sky Long, Charmate, Huali Capital and Mei Rui.

The Company tried to recover the overdue balances and demand for repayment of the outstanding principals and interest by instructing Gallant, the legal adviser to the Company, to issue legal demand letters to the Loan Debtors.

In addition, the independent accountants of the Company had reviewed the consolidated financial statement for the six months ended 30 June 2019. During their review, confirmations had been sent to the abovementioned borrowers. However, none of them reply to those confirmations up until 30 August 2019.

Based on HKFRS 9 to assess the expected credit loss estimated on the subject loan receivables by adopting the probability of default approach, which had factoring in the payment history, default status, any security in the form of collaterals or guarantees, financial position of the Loan Debtors, legal actions taken, feedback or responses received from the Loan Debtors, and the relevant litigation progress, the Company considered that the recoverable amount of the respective loan receivables was minimal due to the following reasons:

- (a) although demand letters had been sent out by Gallant to the Loan Debtors with overdue balances to demand for payment of the outstanding principals and interest on 9 August 2019 and 16 August 2019 respectively, the Loan Debtors had failed to repay any outstanding principals and interest since the issue of the abovementioned legal demand letters and over the past one year up to the date of the publication of the Unaudited Results on 31 March 2020;
- (b) the Loan Debtors had been in default for loans repayment pursuant to the terms of their respective loan agreements;
- (c) the Loan Debtors gave no response to the legal demand letters from Gallant, the statutory demand from the BVI Counsel in relation to those BVI incorporated Loan Debtors; and the confirmations from the independent accountants of the Company;

As such, the impairment of the loan receivables of the Company for the year ended 31 December 2019 was then arrived after the consideration of the above-mentioned factors (i.e. (a) to (c)) as well as the following factors:

- (d) the application of “Measurement of expected credit losses” as stated in the HKFRS 9;
- (e) with reference to the valuation report in respect of the loan receivables as prepared by an independent valuer LCH;
- (f) having considered the above factors, the loans and deposit should fall within the definition of credit-impaired financial assets of HKFRS 9 and therefore the assessment was based on the recoverable amounts of the loans derived from the valuation report as prepared by an independent valuer LCH; and
- (g) after thorough discussion among the Company’s Directors, including all the three audit committee members, it was resolved to approve the interim results announcement incorporating the full impairments made against the Loan Debtors during the meeting of the Board of Directors on 30 August 2019.

(II) *Impairment of refundable deposits*

References are made to the announcements of the Company dated 12 September 2017, 10 October 2017 and 25 April 2018 in relation to the memorandum of understanding dated 12 September 2017 (as supplemented on 10 October 2017 and 25 April 2018) (the “MOU”) entered into among Sunway New Energy, the Vendor, and the Guarantor in relation to the Possible Acquisition.

Pursuant to the MOU, Sunway New Energy had paid in cash the Refundable Earnest Money to the Vendor. The Refundable Earnest Money shall be applied as part payment of the consideration for the Possible Acquisition upon signing of the formal agreement. Should Sunway New Energy decide not to proceed with the Possible Acquisition or Sunway New Energy and the Vendor fail to enter into the formal agreement within the exclusivity period, the Vendor shall refund the Refundable Earnest Money together with interest accrued thereon to Sunway New Energy.

Reference is made to the announcement of the Company dated 2 July 2019 on which Sunway New Energy had filed a writ with the Court for the commencement of legal proceedings against, among others, the Vendor and the Guarantor for the return of the Refundable Earnest Money. On the same day, the Court had accepted the writ filed by Sunway New Energy.

According to the civil ruling by the Court on 16 July 2019, the Frozen Shares with value within RMB100,000,000 were suspended for a period of three years. However, for prudence purpose and accounting requirements, full impairment has been made against the Refundable Earnest Money during the year ended 31 December 2019 based on the following factors:

- (a) since Sunway New Energy decided not to proceed with the Possible Acquisition and no formal agreement was entered into between Sunway New Energy and the Vendor within the exclusivity period, Sunway New Energy had requested, through a legal demand letter dated 4 October 2018 as issued by King & Wood Mallesons to the Vendor and Guarantor to return the Refundable Earnest Money. However, the Vendor failed to return the Refundable Earnest Money to Sunway New Energy;
- (b) both of the Vendor and Guarantor had signed a confirmation dated 20 December 2018 that they agreed to repay the Refundable Earnest Money in full before 30 June 2019 but no payment had been made since then;
- (c) a legal advice dated 27 August 2019, as issued by a PRC lawyer, mentioned that the Frozen Shares might be subject to another legal proceeding in relation to bank borrowings amounting to RMB108,000,000 in the PRC;

- (d) with reference to the valuation report in respect of the refundable deposits as prepared by an independent valuer LCH;
- (e) the application of “Measurement of expected credit losses” as stated in the HKFRS 9;
- (f) after thorough discussion among the Company’s Directors, including all the three audit committee members, it was resolved to approve the interim results announcement incorporating the full impairment of the Refundable Earnest Money during the meeting of the Board of Directors on 30 August 2019; and
- (g) no subsequent settlement, over the past one year, had been made by Vendor and Guarantor until the date of publication of the Unaudited Results.

By order of the Board of
Sunway International Holdings Limited
Law Chun Choi
Executive Director and Company Secretary

Hong Kong, 12 August 2020

As at the date of this announcement, the Board comprises three executive Directors, namely, Mr. Fok Po Tin, Mr. Li Chongyang and Mr. Law Chun Choi, one non-executive Director, namely, Mr. Lum Pak Sum, and three independent non-executive Directors, namely, Mr. Choi Pun Lap, Mr. Tong Leung Sang and Mr. Chan Sung Wai.

In case of any inconsistency, the English text of this announcement shall prevail over the Chinese.

Website: <http://www.hk0058.com>

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