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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker 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 Suncity Group Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser, the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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SUNCITY GROUP HOLDINGS LIMITED

太陽城集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1383)

**CONNECTED TRANSACTION
IN RELATION TO THE PROPOSED EXTENSION OF
MATURITY DATE OF CONVERTIBLE BONDS**

**Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders**



Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed “Definitions” in this circular.

A letter of advice from Astrum to the Independent Board Committee and the Independent Shareholders is set out on pages 20 to 38 of this circular. The letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 19 of this circular.

A notice convening the EGM to be held at Jade Room, Artyzen Club, 401A, 4th Floor, Shun Tak Centre, 200 Connaught Road Central, Hong Kong on Friday, 21 August 2020 at 2:30 p.m. is set out on pages EGM-1 to EGM-3 of this circular. A form of proxy for use at the EGM is enclosed with this circular.

Whether or not you are able to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM (i.e. 2:30 p.m. on 19 August 2020) or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you so desire. In such event, the instrument appointing a proxy will be deemed to be revoked.

31 July 2020

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DEFINITIONS

In this circular:

- (a) All references to Rules and Chapters are references to Rules and Chapters of the Listing Rules unless otherwise stated.*
- (b) Unless otherwise stated, when translated, each RMB amount stated in this circular was translated at the exchange rate of RMB1.0 to HK\$1.1.*
- (c) Unless the context otherwise requires, the following expressions have the following meanings:*

“Acquisition”	the acquisition of the entire equity interest in and shareholder’s loan owed by Star Admiral Limited, which in turn is holding a direct 50% equity interest in Gold Yield Enterprises Limited (which in turn owns approximately 68.09% interest in an integrated resort development project located in Hoi An South, Quang Nam Province, Vietnam)
“Acquisition Announcement”	the announcement of the Company dated 27 July 2017 in relation to the Acquisition
“Acquisition Circular”	the circular of the Company dated 1 November 2017 in relation to the Acquisition
“associates”	has the meaning ascribed to it under the Listing Rules
“Astrum” or “Independent Financial Adviser”	Astrum Capital Management Limited, a corporation licensed by the SFC to carry 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 with the approval of the Independent Board Committee for the purpose of advising the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Deed and the transactions contemplated thereunder
“Better Linkage”	Better Linkage Limited, a company incorporated in BVI with limited liability and wholly-owned by Mr. Lo
“Board”	the board of Directors
“Bondholders”	collectively, Star Hope and Better Linkage

DEFINITIONS

“Business Day”	a day on which licensed banks in Hong Kong are generally open for business and on which the Stock Exchange is open for normal trading, other than a Saturday or a Sunday or a public holiday or a day on which a “black” rainstorm warning or tropical cyclone warning signal number 8 or above is issued in Hong Kong at any time between 9:00 a.m. and 12:00 noon and is not cancelled at or before 12:00 noon
“BVI”	the British Virgin Islands
“CB Instrument”	the Convertible Bonds instrument dated 28 August 2018 entered into by the Company in relation to the Convertible Bonds
“Company”	Suncity Group Holdings Limited, a company incorporated in the Cayman Islands with limited liability with its issued Shares listed on the Main Board of the Stock Exchange (stock code: 1383)
“Conditions Precedent”	the conditions precedent to the Supplemental Deed as set out in “Letter from the Board – Supplemental Deed-Conditions Precedent” in this circular
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Conversion Price”	the initial conversion price of HK\$0.90 per Conversion Share, subject to adjustments
“Conversion Shares”	new Shares to be allotted and issued upon exercise of the conversion rights attaching to the Convertible Bonds
“Convertible Bonds”	the zero coupon convertible bonds in the aggregate principal amount of HK\$297,000,000 issued by the Company to the Bondholders
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held at Jade Room, Artyzen Club, 401A, 4th Floor, Shun Tak Centre, 200 Connaught Road Central, Hong Kong on Friday, 21 August 2020 at 2:30 p.m., notice of which is set out on pages EGM-1 to EGM-3 of this circular for the purpose of considering, and, if thought fit, to approve, among other things, in respect of the Extension

DEFINITIONS

“Extended CB Maturity Date”	28 August 2022
“Extension”	the proposed extension of the maturity date of the Convertible Bonds from 28 August 2020 to the Extended CB Maturity Date (i.e. 28 August 2022)
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee, comprising all the independent non-executive Directors, namely Mr. Tou Kin Chuen, Dr. Wu Kam Fun Roderick and Mr. Lo Wai Tung John, which has been established to make recommendations to the Independent Shareholders in respect of the Extension
“Independent Shareholders”	Shareholders other than Mr. Chau and Mr. Lo and their respective associates
“Latest Practicable Date”	27 July 2020, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Listing Committee”	has the same meaning ascribed to it under the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Chau”	Mr. Chau Cheok Wa, the Chairman of the Company, an executive Director and a controlling shareholder of the Company
“Mr. Lo”	Mr. Lo Kai Bong, an executive Director
“PRC”	the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Promissory Note”	the 2% promissory note in the principal amount of HK\$303,000,000 issued by the Company to Star Hope
“RMB”	Renminbi, the lawful currency of the PRC
“SFC”	the Securities and Futures Commission
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Law of Hong Kong)

DEFINITIONS

“Shareholders”	the holder of any one or more Share
“Shares”	ordinary shares of HK\$0.10 each in the share capital of the Company
“Star Hope”	Star Hope Limited, a company incorporated in BVI with limited liability and wholly-owned by Mr. Chau
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Deed”	the supplemental deed entered into by the Company and the Bondholders on 3 July 2020 to extend the maturity date of the Convertible Bonds from 28 August 2020 to the Extended CB Maturity Date
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

LETTER FROM THE BOARD



太陽城集團
SUNCITY GROUP

SUNCITY GROUP HOLDINGS LIMITED

太陽城集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1383)

Executive Directors:

Mr. Chau Cheok Wa (*Chairman*)
Mr. Lo Kai Bong
Mr. Au Chung On John
Mr. Manuel Assis Da Silva

Independent non-executive Directors:

Mr. Tou Kin Chuen
Dr. Wu Kam Fun Roderick
Mr. Lo Wai Tung John

Registered office:

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

*Principal place of business
in Hong Kong:*

Unit 1705, 17/F., West Tower
Shun Tak Centre
168–200 Connaught Road Central
Hong Kong

31 July 2020

CONNECTED TRANSACTION IN RELATION TO THE PROPOSED EXTENSION OF MATURITY DATE OF CONVERTIBLE BONDS

To the Shareholders

Dear Sir or Madam,

INTRODUCTION

As disclosed in the announcement of the Company dated 28 August 2018, the Acquisition proceeded to completion on 28 August 2018. The consideration in the amount of HK\$600 million payable by the Group for the Acquisition was satisfied by the Group (a) as to HK\$297 million by the issue of the Convertible Bonds to the Bondholders (as to HK\$177 million to Star Hope and as to HK\$120 million to Better Linkage); and (b) as to the remaining HK\$303 million by the issue of the Promissory Note to Star Hope, all of which remain outstanding as at the date of this circular and will mature on 28 August 2020.

LETTER FROM THE BOARD

On 3 July 2020 (after trading hours of the Stock Exchange), the Company and the Bondholders entered into the Supplemental Deed to extend the maturity date of the Convertible Bonds by 24 months from 28 August 2020 to the Extended CB Maturity Date (i.e. 28 August 2022) subject to fulfilment of the Conditions Precedent.

As announced in the announcement of the Company dated 3 July 2020, on 3 July 2020, the Company and Star Hope entered into a supplemental promissory note to extend the maturity date of the Promissory Note by 24 months from 28 August 2020 to 28 August 2022 (the “**Extension of PN**”). Save for the extension of the maturity date, all other terms of the Promissory Note shall remain unchanged. The Extension of PN constitutes a connected transaction for the Company but is exempted from reporting, announcement, and Independent Shareholders’ approval under Chapter 14A.90 for it is conducted on better commercial terms and not secured by the assets of the Group.

The purpose of this circular is to provide the Shareholders with, among other things, (i) details of the Supplemental Deed; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Supplemental Deed and the transactions contemplated thereunder; (iii) a letter of advice from Astrum to the Independent Board Committee and the Independent Shareholders in relation to the Supplemental Deed and the transactions contemplated thereunder; (iv) other information as required under the Listing Rules; and (v) the notice of the EGM.

SUPPLEMENTAL DEED

On 3 July 2020 (after trading hours of the Stock Exchange), the Company and the Bondholders entered into the Supplemental Deed to extend the maturity date of the Convertible Bonds by 24 months from 28 August 2020 to the Extended CB Maturity Date (i.e. 28 August 2022) subject to fulfilment of the Conditions Precedent.

Star Hope is a connected person of the Company for being an associate of a connected person of the Company. Please refer to “Information on Star Hope and Better Linkage” below in this circular for further information.

Better Linkage is a connected person of the Company for being an associate of a connected person of the Company. Please refer to “Information on Star Hope and Better Linkage” below in this circular for further information.

Conditions precedent

The Supplemental Deed will only become effective upon all the following conditions having been fulfilled:

- (i) the Stock Exchange having approved the Extension as contemplated by the Supplemental Deed;

LETTER FROM THE BOARD

- (ii) the Stock Exchange granting its approval for the listing of, and permission to deal in, the Conversion Shares fall to be issued upon exercise of the conversion rights attached to the Convertible Bonds as amended and supplemented by the Supplemental Deed;
- (iii) the approval of the Independent Shareholders to the Supplemental Deed and the transactions contemplated thereunder at the EGM of the Company to be held and convened; and
- (iv) the obtaining by the Company of all other necessary consents and approvals as may be required under the Listing Rules or by the Stock Exchange in respect of the Supplemental Deed and the transactions contemplated thereunder.

If any of the Conditions Precedent shall not have been fulfilled by 28 August 2020 or such later date as the parties to the Supplemental Deed may agree, the Supplemental Deed shall lapse and the parties thereto shall release each other from all obligations thereunder save for claim (if any) in respect of any antecedent breach thereof.

Principal terms of the Convertible Bonds

All the terms of the Convertible Bonds shall remain unchanged and in full force save and except as revised by the Extension. The principal terms of the Convertible Bonds as disclosed in the Acquisition Announcement and the Acquisition Circular are repeated below (with only the Maturity Date having been revised to the Extended CB Maturity Date):

Issuer	:	the Company
Principal Amount	:	an aggregate principal amount of HK\$297,000,000
Denomination	:	The Convertible Bonds shall be issued in authorised denomination of HK\$3,000,000 each and integral multiples thereof.
Interest rate	:	the Convertible Bonds shall not bear any interest
Maturity date	:	28 August 2022, or if such date is not a Business Day, the next Business Day
Redemption	:	Any amount of the Convertible Bonds which remains outstanding on the Extended CB Maturity Date shall be redeemed at its then outstanding principal amount.

LETTER FROM THE BOARD

The Company may at any time before the Extended CB Maturity Date by serving at least ten (10) days' prior written notice to the holder(s) of the Convertible Bonds with the total amount proposed to be redeemed from the holder(s) of the Convertible Bonds specified therein, redeem the Convertible Bonds (in whole or in part (in authorised denominations)) at 100% of the principal amount of such Convertible Bonds.

Any amount of the Convertible Bonds which is redeemed or converted will forthwith be cancelled.

Certificate in respect of the Convertible Bonds cancelled will be forwarded to or to the order of the Company and such Convertible Bonds may not be reissued or resold.

- Conversion period : Provided that any conversion of the Convertible Bonds does not result in the public float of the Shares being less than 25% (or any given percentage as required by the Listing Rules) of the issued Shares of the Company, the holder(s) of the Convertible Bonds shall, subject to compliance with the procedures set out in the terms and conditions of the Convertible Bonds, have the right at any time during the period commencing from the date of issue of the Convertible Bonds up to 4:00 p.m. (Hong Kong time) on the Extended CB Maturity Date to convert the whole or part (in authorised denominations) of the outstanding principal amount of Convertible Bonds registered in its name into Shares at the Conversion Price.
- Conversion Price : The initial Conversion Price is HK\$0.90 per Conversion Share (subject to adjustments).

LETTER FROM THE BOARD

Adjustment to the Conversion Price : The initial Conversion Price is subject to customary anti-dilution adjustment(s) contained in the terms of the Convertible Bonds upon the occurrence of any of the following events:

(i) consolidation or subdivision of Shares; (ii) issue of Shares by way of capitalisation of profits or reserves other than an issue of Shares paid up out of profits or reserves and issued in lieu of the whole or part of a specifically declared cash dividend; (iii) distributions in cash or specie; (iv) rights issues or grant of options or warrants to subscribe for new Shares at a price which is less than 90% of the market price (being the average of the closing prices of one Share on the Stock Exchange for each of the last five (5) Stock Exchange dealing days on which dealings in the Shares on the Stock Exchange took place ending on the last such dealing day preceding the day on or as of which the market price is to be ascertained) (the “**market price**”) on the date of the announcement of the terms of the offer or grant; (v) issue wholly for cash any securities which are convertible into or exchangeable for or carry rights of subscription for new Shares at an initial total effective consideration per Share of less than 90% of the market price of the Shares on the date of the announcement of the terms of such securities; (vi) issue wholly for cash any Shares at an effective price per Share which is less than 90% of the market price of the Shares; (vii) issue Shares for the acquisition of asset at an effective consideration per Share which is less than 90% of the market price of the Shares at the date of announcement of the terms of such issue; or (viii) issue of Shares by way of capitalisation of profits or reserves other than an issue of shares paid up out of profits or reserves issued in lieu of the whole or part of a relevant cash dividend, being a scrip dividend scheme where the market value of such Shares is not more than 110% of the amount of dividend which Shareholders could select to or would otherwise receive in cash.

Ranking of the Conversion Shares : The Conversion Shares issued upon conversion of the Convertible Bonds will in all respects rank pari passu with the Shares in issue on the date of allotment and issue of such Conversion Shares and accordingly shall be entitled to participate in all dividends or other distributions declared, paid or made on or after the relevant conversion date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be on or before the relevant conversion date.

LETTER FROM THE BOARD

Voting : The holder(s) of the Convertible Bonds shall not be entitled to attend or vote at any meeting of the Company by reason only it/them being the holder(s) of the Convertible Bonds.

Transferability : The holder(s) of the Convertible Bonds may freely assign or transfer the Convertible Bonds to the transferee (who is not a restricted holder) subject to not less than five (5) Business Days' prior notification to the Company. The Convertible Bonds may not be assigned or transferred, in whole or in part, to any connected person of the Company, save for (i) Mr. Chau and his associates and (ii) Mr. Lo and his associates, without prior written consent of the Company. The Convertible Bonds may be assigned or transferred in whole or in part (in authorised denominations) of its outstanding principal amount and the Company shall facilitate any such assignment or transfer of the Convertible Bond, including making any necessary applications to the Stock Exchange for the said approval (if required).

Notwithstanding the above, the holder(s) of the Convertible Bonds shall be permitted at any time to transfer the Convertible Bonds to a transferee who is a wholly-owned subsidiary of such holder(s) of the Convertible Bonds or a holding company of such holder(s) of the Convertible Bonds who owns the entire issued share capital of such holder(s) of the Convertible Bonds provided that the Convertible Bonds will be re-transferred to such holder(s) of the Convertible Bonds immediately upon the transferee ceasing to be a wholly-owned subsidiary of such holder(s) of the Convertible Bonds or a holding company of the holder(s) of the Convertible Bonds who owns the entire issued share capital of such holder(s) of the Convertible Bonds.

Listing : No application will be made for the listing of the Convertible Bonds on the Stock Exchange or any other stock or securities exchange.

Application has been made by the Company to the Listing Committee for the listing of, and permission to deal in, the Conversion Shares.

LETTER FROM THE BOARD

Event of default : If any of the events of default set out in the terms and conditions of the Convertible Bonds occurs, the Company shall within ten (10) days of such event occurring give notice to the holder(s) of the Convertible Bonds.

Within ten (10) days after the Company despatches the notice, the holder(s) of the Convertible Bonds may give notice to the Company that the Convertible Bonds are immediately due and payable, whereupon they shall become immediately due and payable.

Conversion Shares

As at the Latest Practicable Date:

- (1) no Conversion Share has ever been allotted and issued under the Convertible Bonds;
- (2) the Conversion Price (which is subject to adjustments) remains at HK\$0.90 per Conversion Share;
- (3) the Convertible Bonds remain convertible to a maximum of 330,000,000 Conversion Shares on the basis of an aggregate principal amount of HK\$297,000,000 to be converted at the initial Conversion Price of HK\$0.90 per Conversion Share (subject to adjustments) and assuming that there being no change to the share capital and shareholdings structure of the Company save for the allotment and issue of the Conversion Shares under the Convertible Bonds, the 330,000,000 Conversion Shares issuable upon full conversion of the Convertible Bonds represent:
 - (i) approximately 4.95% of the existing issued share capital of the Company as at the Latest Practicable Date; and
 - (ii) approximately 4.72% of the issued share capital of the Company as enlarged by the issue of the 330,000,000 Conversion Shares.

LETTER FROM THE BOARD

EFFECT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

Assuming there being no change in the share capital and shareholding structure of the Company from the date of this circular other than the allotment and issue of the Conversion Shares issuable under the Convertible Bonds, the shareholding structure of the Company (i) as at the date of this circular; and (ii) immediately upon full conversion of the Convertible Bonds (at the initial Conversion Price) is as follows:

	As at the date of this circular		Immediately upon full conversion of the Convertible Bonds (at the initial Conversion Price)	
	<i>Number of Shares</i>	<i>Approx. %</i>	<i>Number of Shares</i>	<i>Approx. %</i>
Mr. Chau and his associates				
Fame Select Limited ("Fame Select")	4,991,643,335 (note 1)	74.87	4,991,643,335	71.34
Star Hope	–	–	196,666,666 (note 2)	2.81
Mr. Lo and his associates				
Mr. Lo	1,230,000 (note 3)	0.02	1,230,000	0.02
Ever Smart Capital Limited ("Ever Smart")	4,520,000 (note 4)	0.06	4,520,000	0.06
Better Linkage	1,250,000 (note 5)	0.02	134,583,333 (note 6)	1.92
Mr. Au Chung On John and his associate	400,000 (note 7)	0.01	400,000	0.01
Mr. Manuel Assis Da Silva and his associate	810,000 (note 8)	0.01	810,000	0.01
Sub-total	4,999,853,335	74.99	5,329,853,334	76.17
Public Shareholders	<u>1,667,119,411</u>	<u>25.01</u>	<u>1,667,119,411</u>	<u>23.83</u>
Total	<u><u>6,666,972,746</u></u>	<u><u>100.00</u></u>	<u><u>6,996,972,745</u></u>	<u><u>100.00</u></u>

LETTER FROM THE BOARD

Notes:

1. These Shares are held by Fame Select. Mr. Chau has 50% interests in Fame Select and is deemed to be interested in these Shares held by Fame Select under the SFO.
2. These Shares represent the maximum of 196,666,666 Conversion Shares issuable to Star Hope upon full conversion of the Convertible Bonds held by Star Hope in the aggregate principal amount of HK\$177,000,000 together with those held by Better Linkage at the initial Conversion Price of HK\$0.90 (subject to adjustments). Mr. Chau has 100% interests in Star Hope and is deemed to be interested in these Shares held by Star Hope upon their issuance under the SFO.
3. These Shares are held by Mr. Lo as beneficial owner.
4. These Shares are held by Ever Smart. Mr. Lo has 100% interests in Ever Smart and is deemed to be interested in these Shares held by Ever Smart under the SFO.
5. These Shares are held by Better Linkage. Mr. Lo has 100% interests in Better Linkage and is deemed to be interested in these Shares held by Better Linkage under the SFO.
6. These Shares represent (a) the 1,250,000 Shares held by Better Linkage; and (b) the maximum of 133,333,333 Conversion Shares issuable to Better Linkage upon full conversion of the Convertible Bonds held by Better Linkage in the aggregate principal amount of HK\$120,000,000 together with those held by Star Hope at the initial Conversion Price of HK\$0.90 (subject to adjustments). Mr. Lo has 100% interests in Better Linkage and is deemed to be interested in these Shares held by Better Linkage upon their issuance under the SFO.
7. These Shares are held by the spouse of Mr. Au Chung On John, an executive Director. Mr. Au Chung On John is deemed to be interested in these Shares held by his spouse under the SFO.
8. These Shares represent (a) 290,000 Shares held by Mr. Manuel Assis Da Silva, an executive Director; and (b) 520,000 Shares held by his spouse, Ms. Rosa Laura Gomes Silva. Mr. Manuel Assis Da Silva is deemed to be interested in all Shares held by his spouse and vice versa under the SFO.

FUNDS RAISED ON ISSUE OF EQUITY SECURITIES IN THE PAST TWELVE MONTHS

The Company has not conducted any equity fund raising activities during the past 12 months immediately preceding the date of this circular.

REASONS AND BENEFITS FOR THE PROPOSED EXTENSION

As at the Latest Practicable Date:

- (1) Mr. Chau is interested in 4,991,643,335 Shares (through Fame Select, a company in which Mr. Chau has 50% interest), representing approximately 74.87% of the existing issued share capital of the Company. In the event of full conversion of the Convertible Bonds held by Star Hope in the aggregate principal amount of HK\$177,000,000 together with those held by Better Linkage, 196,666,666 Conversion Shares will be issuable to Star Hope and Mr. Chau will become interested in an aggregate of 5,188,310,001 Shares, representing approximately 74.15% of the enlarged issued share capital of the Company;

LETTER FROM THE BOARD

- (2) Mr. Lo is interested in 5,770,000 Shares (through Better Linkage and Ever Smart, companies wholly and beneficially owned by Mr. Lo) and 1,230,000 Shares as beneficial owner, representing approximately 0.10% of the existing issued share capital of the Company. In the event of full conversion of the Convertible Bonds held by Better Linkage in the aggregate principal amount of HK\$120,000,000 together with those held by Star Hope, 133,333,333 Conversion Shares will be issuable to Better Linkage and Mr. Lo will become interested in an aggregate of 140,333,333 Shares, representing approximately 2.00% of the enlarged issued share capital of the Company;
- (3) Mr. Chau, Mr. Lo, Mr. Au Chung On John and Mr. Manuel Assis Da Silva and their respective associates are interested in an aggregate of 4,999,853,335 Shares, representing approximately 74.99% of the existing issued share capital of the Company.

Full or partial conversion of the Convertible Bonds on 28 August 2020 in the absence of the Extension will end up with less than 25% of the Company's issued share capital being held by the public as that required by Rule 8.08. In light of the above, the Group could only either redeem the Convertible Bonds at maturity or extend the maturity date of the Convertible Bonds.

Based on the annual report of the Company for the year ended 31 December 2019, the Group has recorded net current liabilities of approximately RMB3,282.3 million and net liabilities of approximately RMB1,705.4 million as at 31 December 2019. In addition, the Group's bank balances and cash of the Group as at 31 December 2019 amounted to approximately RMB253.4 million (equivalent to approximately HK\$278.7 million), which was principally composed of the cash balance of a 51%-owned subsidiary of the Company (namely, Suntrust Home Developers, Inc. ("SunTrust"), a company incorporated in the Philippines and the shares of which are listed on The Philippine Stock Exchange, Inc. (stock code: SUN)) of approximately RMB175.9 million (equivalent to approximately HK\$193.5 million) for its operation and development and cannot be used for the Group's working capital and redemption of the Convertible Bonds. The available cash of the Group as at 31 December 2019 (after deducting the cash balance of SunTrust) amounted to RMB77.5 million (equivalent to approximately HK\$85.3 million) and the Group would not have sufficient cash to redeem the outstanding Convertible Bonds in the principal amount of HK\$297 million at the original maturity date (i.e. 28 August 2020).

In the event the Group has to deploy all its available cash (RMB77.5 million or HK\$85.3 million as at 31 December 2019) in redeeming the Convertible Bonds at the original maturity date, the Group will have no available cash for its operation and will pose a significant impact on the operations and future development of the Group. In view of the further capital requirements for the business operations, investments and development of the Group, the Extension will enable the Group to postpone a substantial cash outflow and allow the Group to have reasonable time to improve its business performance and financial position.

The Extension will also allow the Group to have more financial flexibility in the deployment of its working capital for its business operations and development. In light of the zero coupon rate of the Convertible Bonds, the Directors consider it in the interests of the Company and the Independent Shareholders as a whole to utilise its resources for business development and other business opportunities in order to maximise returns to the Shareholders. The Extension will allow the Group to have additional time to develop its business instead of repayment of the Convertible Bonds within a relatively short period.

LETTER FROM THE BOARD

The Company has considered financing alternatives, such as equity financing and bank borrowings to raise funds for the purpose of repayment of the outstanding Convertible Bonds instead of the Extension. Set out below is the details in relation to each of the fundraising alternatives conducted by the Group.

(i) Equity Financing

In June 2020, the Group was in negotiations with two securities firms to explore the possibility of equity financing by placing new Shares to independent investors with the fund-raising size of HK\$300 million to HK\$600 million at a price with a slight discount to the then prevailing market prices of the Shares. However, the Group did not receive any concrete feedback from these securities firms in light of current volatile market sentiment and net current liabilities position of the Group as at 31 December 2019. Given that (i) the uncertainties in stock market sentiment and economic conditions; and (ii) potential significant discount on the placing price so as to increase the attractiveness of the equity fund raising exercise, the Board considered that equity fund is not a practicable and favourable financing alternative to the Company.

(ii) Bank Borrowings

In June 2020, the Group approached a financial institution in Macau and another financial institution in Hong Kong in relation to the possibility of obtaining bank loans or facilities with a loan size of HK\$300 million to HK\$600 million. However, due to the financial performance and net current liabilities position of the Group as at 31 December 2019, coupled with the uncertainties of the global economy in 2020, the financial institutions approached by the Group were of the view that it would be difficult for the Company to obtain new borrowings on terms satisfactory to the Group.

Based on the aforesaid experience and having considered the facts that (i) the Group had a net current liabilities position as at 31 December 2019; and (ii) the equity capital market has been volatile since 2020 and the abovementioned factors, the Board is of the view that it would be difficult for the Company to attract investors to subscribe for new convertible bonds of the Company or to participate in the equity fundraising exercise. Therefore, the Board has resolved not to issue new convertible bonds and conduct equity fundraising exercise in 2020 for the purpose of repayment of the outstanding Convertible Bonds.

Further, in order to reduce the Group's cash outflow, the Board is of the view that it is unfavourable for the Group to redeem the Convertible Bonds at its original maturity date, as it will cause a significant reduction in the working capital of the Group and thus hinder its development. As such, the Board is of the view that the Extension would allow the Group to delay the outflow of HK\$297 million and thus provide flexibility to the Company's working capital management and deployment of its financial resources to fund its business development and other business opportunities in order to maximise returns to its Shareholders.

During the negotiations between the Company, Star Hope and Better Linkage, the Company managed to agree with Star Hope and Better Linkage on the extension of the maturity date for a 24-month period without imposing any additional conditions.

LETTER FROM THE BOARD

Although the Conversion Price of HK\$0.90 represents a discount of 26.8% to the closing price of HK\$1.23 per Share as quoted on the Stock Exchange on the last trading day prior to the date of the Supplemental Deed, the Group considers the conversion price acceptable given that (i) the Group does not have sufficient cash to redeem the outstanding Convertible Bonds; (ii) it would be difficult for the Group to obtain new borrowings on terms satisfactory to the Group in view of the net current liabilities position of the Group as at 31 December 2019 as discussed above; (iii) it is unlikely the Group will be able to attract investors to subscribe for the new convertible bonds or to participate in the equity fundraising exercise before the original maturity date for the purpose of repayment of the outstanding Convertible Bonds; (iv) the Convertible Bonds are interest-free; and (v) the Extension would ease the immediate financial pressure of the Group, the Group agreed to maintain the Conversion Price of the Convertible Bonds at the time of Convertible Bonds being issued instead of adjusting the conversion price at the time of the entering into of the Supplemental Deed.

In relation to the extension of the maturity date for 24 months, the Group is of the view it provides a reasonable time frame for the Group to develop its business plan and will allow the Company's financial performance to improve accordingly. The Board considered an extension for a 12-month period is insufficient for the Group to carry out its development plan and an extension beyond a 24-month period is not necessary, as the Group is optimistic that the financial performance of the Group will improve within 24 months based on the development plan and thus will be able to generate sufficient funds in the event the Company decides to redeem whole or part of the Convertible Bonds.

In light of the above, the Board is of the view that the Supplemental Deed is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Board (including the independent non-executive Directors whose recommendation is set out in the letter from the Independent Board Committee, after taking into account the advice from the Independent Financial Adviser) considers that the terms and conditions of the Supplemental Deed are fair and reasonable and the Extension is in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE GROUP

The Group is principally engaged in (i) property development in Guangdong and Anhui Provinces in the PRC; (ii) property leasing in Shenzhen in the PRC; (iii) provision of hotel and integrated resort general consultancy service in Vietnam; and (iv) provision of travel related products and service. The Group has been expanding and seeking opportunities to expand its tourism-related business, in particular, investment in integrated resort and provision of hotel and integrated resort general consultancy services in the South East Asia region, including Vietnam and Korea.

INFORMATION ON STAR HOPE AND BETTER LINKAGE

Star Hope is a company incorporated in BVI with limited liability, and is an investment holding company. Star Hope is owned as to 100% by Mr. Chau, the Chairman of the Company, an executive Director and a controlling shareholder of the Company. Star Hope is a connected person of the Company for being an associate of a connected person of the Company.

LETTER FROM THE BOARD

Better Linkage is a company incorporated in BVI with limited liability, and is an investment holding company. Better Linkage is owned as to 100% by Mr. Lo, an executive Director. Better Linkage is a connected person of the Company for being an associate of a connected person of the Company.

LISTING RULES IMPLICATIONS

The Extension constitutes a connected transaction for the Company which is subject to the reporting, announcement, and Independent Shareholders' approval under Chapter 14A.

Pursuant to Rule 28.05, any alteration in the terms of convertible debt securities after issue must be approved by the Stock Exchange, except where the alteration takes effect automatically under the existing terms of such convertible debt securities. In accordance with Rule 28.05, application has been made by the Company to the Stock Exchange for (1) the approval to the Extension; and (2) granting of the listing of, and permission to deal in, the Conversion Shares fall to be issued upon exercise of the conversion rights attached to the Convertible Bonds as amended and supplemented by the Supplemental Deed.

GENERAL

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Tou Kin Chuen, Dr. Wu Kam Fun Roderick and Mr. Lo Wai Tung John has been established to give recommendations to the Independent Shareholders as to whether (i) the terms of the Supplemental Deed are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the entering into of the Supplemental Deed is in the interests of the Company and the Shareholders as a whole and the letter from the Independent Board Committee is set out on page 19 of this circular. Astrum has been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard and the letter from Astrum is set out on pages 20 to 38 of this circular.

EGM AND VOTING

The EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Extension.

As at the Latest Practicable Date, Star Hope is owned as to 100% by Mr. Chau, the Chairman of the Company, an executive Director, and a controlling shareholder of the Company. Star Hope is a connected person of the Company for being an associate of a connected person of the Company. Better Linkage is owned as to 100% by Mr. Lo, an executive Director. Better Linkage is a connected person of the Company for being an associate of a connected person of the Company. Accordingly, Mr. Chau and Mr. Lo and their respective associates shall abstain from voting on the ordinary resolution in relation to the Supplemental Deed and the transactions contemplated thereunder to be proposed at the EGM.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, no other Shareholders or Directors are required to abstain from voting at the EGM in respect of the Supplemental Deed and the transactions contemplated thereunder. Mr. Chau and Mr. Lo have also abstained from voting in respect of the relevant Board resolution relating to the Supplemental Deed and the transactions contemplated thereunder.

LETTER FROM THE BOARD

A notice convening the EGM to be held at Jade Room, Artyzen Club, 401A, 4th Floor, Shun Tak Centre, 200 Connaught Road Central, Hong Kong on Friday, 21 August 2020 at 2:30 p.m. is set out on page EGM-1 to EGM-3 of this circular and a form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you so desire.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 19 of this circular which contains its recommendation to the Independent Shareholders in relation to the Supplemental Deed and the transactions contemplated thereunder, and the letter from Astrum set out on pages 20 to 38 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in this regard.

The Board (including the independent non-executive Directors whose recommendation is set out in the letter from the Independent Board Committee) considers that the terms of the Supplemental Deed are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and the entering into of the Supplemental Deed, while not in the ordinary and usual course of business of the Group is in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Supplemental Deed and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of the Board
Suncity Group Holdings Limited
Chau Cheok Wa
Chairman



SUNCITY GROUP HOLDINGS LIMITED

太陽城集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1383)

31 July 2020

**CONNECTED TRANSACTION
IN RELATION TO THE PROPOSED EXTENSION OF
MATURITY DATE OF CONVERTIBLE BONDS**

To the Independent Shareholders

Dear Sir or Madam,

We refer to the circular of the Company dated 31 July 2020 (the “**Circular**”) of which this letter forms part. Unless the context specifies otherwise, capitalised terms used herein shall have the same meanings as defined in the Circular.

We have been appointed by the Board as the members of the Independent Board Committee to advise the Independent Shareholders in connection with the Extension. Astrum has been appointed as the Independent Financial Adviser to advise us in this respect. We wish to draw your attention to the letter from the Board and the letter from Astrum as set out in the Circular.

Having considered the principal factors and reasons considered by, and the advice of, Astrum as set out in its letter of advice, we consider that the Supplemental Deed are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and the entering into of the Supplemental Deed, while not in the ordinary and usual course of business of the Group is in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Supplemental Deed and the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of the Independent Board Committee

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

Dr. Wu Kam Fun Roderick
*Independent
non-executive Director*

Mr. Lo Wai Tung John
*Independent
non-executive Director*

LETTER FROM ASTRUM



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

31 July 2020

To the Independent Board Committee and
the Independent Shareholders of
Suncity Group Holdings Limited

Dear Sirs,

CONNECTED TRANSACTION IN RELATION TO THE PROPOSED EXTENSION OF MATURITY DATE OF CONVERTIBLE BONDS

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 Suncity Group Holdings Limited (the “**Company**”) in relation to the proposed extension of the maturity date of the outstanding convertible bonds (the “**Convertible Bonds**”) issued by the Company to Star Hope Limited (“**Star Hope**”) and Better Linkage Limited (“**Better Linkage**”, and together with Star Hope, the “**Bondholders**”) by 24 months from 28 August 2020 to 28 August 2022 (the “**Extension**”). The details of the Extension were disclosed in the announcement of the Company dated 3 July 2020 (the “**Announcement**”) and in the letter from the board (the “**Letter from the Board**”) set out on pages 5 to 18 of the circular of the Company dated 31 July 2020 (the “**Circular**”) to its Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

On 3 July 2020 (after trading hours of the Stock Exchange), the Company and the Bondholders entered into the Supplemental Deed to extend the maturity date of the Convertible Bonds by 24 months from 28 August 2020 to the Extended CB Maturity Date (i.e. 28 August 2022) subject to fulfilment of the Conditions Precedent.

Pursuant to Rule 28.05 of the Listing Rules, any alteration in the terms of convertible debt securities after issue must be approved by the Stock Exchange, except where the alteration takes effect automatically under the existing terms of such convertible debt securities. In accordance with Rule 28.05 of the Listing Rules, application has been made by the Company to the Stock Exchange for (1) the approval to the Extension; and (2) granting of the listing of, and permission to deal in, the Conversion Shares fall to be issued upon exercise of the conversion rights attached to the Convertible Bonds as amended and supplemented by the Supplemental Deed.

LETTER FROM ASTRUM

Star Hope is wholly owned by Mr. Chau, the chairman of the Company, an executive Director and a controlling shareholder of the Company, and Better Linkage is wholly owned by Mr. Lo, an executive Director. Star Hope and Better Linkage are therefore connected persons of the Company under the Listing Rules and the Extension constitutes a connected transaction of the Company which is subject to the reporting, announcement, and Independent Shareholders' approval under Chapter 14A of the Listing Rules.

The EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Extension. Mr. Chau and Mr. Lo and their respective associates shall abstain from voting on the ordinary resolution in relation to the Supplemental Deed and the transactions contemplated thereunder to be proposed at the EGM. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, no other Shareholders are required to abstain from voting at the EGM in respect of the Supplemental Deed and the transactions contemplated thereunder. Mr. Chau and Mr. Lo have also abstained from voting in respect of the relevant Board resolution relating to the Supplemental Deed and the transactions contemplated thereunder.

An Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Tou Kin Chuen, Dr. Wu Kam Fun Roderick and Mr. Lo Wai Tung John, has been established to give recommendations to the Independent Shareholders as to whether (i) the terms of the Supplemental Deed are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the entering into of the Supplemental Deed is in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders in respect thereof. We, Astrum Capital Management Limited, have been appointed as the independent financial adviser of the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have reviewed, *inter alia*, the Announcement, the Circular, the Supplemental Deed, the circular of the Company dated 1 November 2017 in relation to, among other things, the Acquisition and the issue of the Convertible Bonds (the "**Acquisition Circular**") and the annual reports of the Company for the financial years ended 31 December 2018 and 31 December 2019 (the "**2018 Annual Report**" and "**2019 Annual Report**", respectively). We have also reviewed certain information provided by the management of the Company (the "**Management**") relating to the operations, financial condition and prospects of the Group. We have also (i) considered such other information, analysis and market data which we deemed relevant; and (ii) conducted verbal discussions with the Management regarding the terms of the Supplemental Deed, the 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 collectively and individually accept full responsibility in providing information of the Company in the Announcement and the Circular and, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Announcement and the Circular is accurate and complete in all material respects and not misleading or deceptive, and that there are no other matters not contained in the Announcement and the Circular, the omission of which would make any statement herein or in the Announcement and the Circular misleading. We consider that we have performed all necessary steps to enable us to reach an informed view regarding the terms of, and the reasons for entering into, the Supplemental Deed and to justify our reliance on the information

LETTER FROM ASTRUM

provided so as to provide a reasonable basis of our 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. This letter is issued to provide information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the entering into of the Supplemental Deed. Except for the inclusion in the Circular, this letter should not be quoted or referred to, in whole or in part, nor shall it be used for any other purposes, without our prior written consent.

Unless otherwise specified in this letter, amounts denominated in RMB have been converted to HK\$ at a rate of RMB1.0 to HK\$1.1.

INDEPENDENCE DECLARATION

During the last two years, we have acted as the independent financial adviser of a listed company on the Stock Exchange, of which Mr. Chau (who is the beneficial owner of the entire issued share capital of Star Hope) is one of the controlling shareholders, in respect of certain connected transactions. Save as disclosed above, we were not aware of any relationships or interests between Astrum Capital Management Limited, the Company, Star Hope, Better Linkage and/or any of their respective substantial shareholders, directors or chief executive, or any of their respective associates. In the last two years, except for the independent financial adviser engagements (in relation to (i) a connected transaction relating to the proposed extension of maturity date of convertible bonds issued by the Company on 8 December 2016, details of which were set out in the circular of the Company dated 30 August 2018; (ii) renewal of continuing connected transactions, details of which were set out in the circular of the Company dated 3 December 2019; and (iii) the entering into of the operation and management agreement dated 4 May 2020, details of which were set out in the announcement of the Company dated 4 May 2020), there was no other engagement between the Group and Astrum Capital Management Limited. Apart from the normal advisory fees payable to us for the relevant engagement in relation to the Extension, 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 Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Extension.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our advice with regard to the entering into of the Supplemental Deed, we have taken into consideration the following factors and reasons:

1. Information on the Group

According to the Letter from the Board, the Group is principally engaged in (i) property development in Guangdong and Anhui Provinces in the PRC; (ii) property leasing in Shenzhen in the PRC; (iii) provision of hotel and integrated resort general consultancy service in Vietnam; and (iv) provision of travel related products and service. The Group has been expanding and seeking

LETTER FROM ASTRUM

opportunities to expand its tourism-related business, in particular, investment in integrated resort and provision of hotel and integrated resort general consultancy services in the South East Asia region, including Vietnam and Korea.

The table below summarises the audited consolidated financial results of the Group for the three years ended 31 December 2017, 2018 and 2019 (“FY2017”, “FY2018” and “FY2019”, respectively) as extracted from the 2018 Annual Report and the 2019 Annual Report:

Table 1: Summary of the consolidated financial results of the Group

	FY2017	FY2018	FY2019
	(audited)	(audited)	(audited)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	544,708	792,643	611,827
– Sales of properties	132,543	177,400	18,901
– Property management services income	8,605	7,581	13,384
– Travel agency services income	6,246	7,741	5,796
– Sales of travel related products	347,867	535,079	519,738
– Hotel and integrated resort general consultancy services income	2,539	19,794	14,450
– Leases	46,908	45,048	39,558
Gross profit	182,050	236,676	99,918
Profit/(loss) before taxation	262,084	(1,378,012)	(1,495,053)
Profit/(loss) for the year attributable to owners of the Company	197,002	(1,458,541)	(1,484,266)
	As at	As at	As at
	31 December	31 December	31 December
	2017	2018	2019
	(audited)	(audited)	(audited)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank balances and cash	302,557	92,668	253,397
Non-current assets	1,834,649	2,626,664	3,169,708
Current assets	1,084,052	828,214	949,284
Current (liabilities)	(2,403,566)	(2,798,989)	(4,231,612)
Net current (liabilities)	(1,319,514)	(1,970,775)	(3,282,328)
Non-current (liabilities)	(762,950)	(1,714,889)	(1,592,756)
Total assets	2,918,701	3,454,878	4,118,992
Total (liabilities)	(3,166,516)	(4,513,878)	(5,824,368)
Net (liabilities)	(247,815)	(1,059,000)	(1,705,376)

Source: the 2018 Annual Report and the 2019 Annual Report

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(i) FY2018 vs FY2017

Revenue of the Group increased from approximately RMB544.7 million in FY2017 to approximately RMB792.6 million in FY2018, representing a year-on-year increase of approximately 45.5%. Such increase was mainly due to (i) the increase in sales of travel related products and services from approximately RMB347.9 million for FY2017 to approximately RMB535.1 million for FY2018; and (ii) the increase in sales of properties from approximately RMB132.5 million for FY2017 to approximately RMB177.4 million for FY2018.

As a result of the increase in revenue, the Group's gross profit increased by approximately 30.0% from approximately RMB182.1 million in FY2017 to approximately RMB236.7 million in FY2018.

Notwithstanding the increase in gross profit, the Group recorded loss attributable to owners of the Company of approximately RMB1,458.5 million in FY2018 against profit attributable to owners of the Company of approximately RMB197.0 million in FY2017. Such change was mainly attributable to (i) the substantial increase in loss in respect of the change in fair value of derivative financial instruments of approximately RMB859.7 million; (ii) the absence of reversal of impairment loss recognised in respect of deposits for non-current assets in FY2018 (FY2017: approximately RMB438.0 million); (iii) the absence of reversal of provisions for litigations in FY2018 (FY2017: approximately RMB289.2 million); and (iv) the recognition of net exchange loss of approximately RMB181.0 million in FY2018 (FY2017: net exchange gain of approximately RMB41.7 million), which was partially offset by (i) the recognition of profit in respect of the change in fair value of a convertible bond of approximately RMB73.9 million in FY2018 (FY2017: nil); (ii) the recognition of reversal of provisions for potential claims of approximately RMB19.5 million in FY2018 (FY2017: the recognition of provisions of approximately RMB41.9 million); and (iii) the increase in gross profit of approximately RMB54.6 million.

As at 31 December 2018, the Group had total assets of approximately RMB3,454.9 million, total liabilities of approximately RMB4,513.9 million and net liabilities of approximately RMB1,059.0 million. As at 31 December 2018, the Group's bank balances and cash amounted to approximately RMB92.7 million.

(ii) FY2019 vs FY2018

Revenue of the Group decreased from approximately RMB792.6 million in FY2018 to approximately RMB611.8 million in FY2019, representing a decrease of approximately 22.8%. Such decrease was mainly due to the significant decrease in revenue from the Group's sales of properties business in FY2019 with segment revenue tumbled approximately 89.3% to approximately RMB18.9 million. In FY2019, the Group delivered residential units with aggregate gross floor area of approximately 621 m², as compared with 2,981 m² in FY2018.

Due to the significant drop in revenue, the Group's gross profit also declined by approximately 57.8% from approximately RMB236.7 million in FY2018 to approximately RMB99.9 million in FY2019.

LETTER FROM ASTRUM

In FY2019, the Group recorded loss attributable to owners of the Company of approximately RMB1,484.3 million, representing a slight increase of approximately 1.8% as compared to approximately RMB1,458.5 million in FY2018. Such increase was mainly attributable to (i) the recognition of impairment loss on interest in an associate of approximately RMB197.7 million in FY2019 (FY2018: nil); (ii) the recognition of loss on deemed disposal of subsidiaries of approximately RMB152.0 million in FY2019 (FY2018: nil); (iii) the significant decrease in gross profit of approximately RMB136.8 million; (iv) the substantial increase in loss in respect of the change in fair value of investment properties of approximately RMB102.1 million; (v) the absence of gain in respect of the change in fair value of a convertible bond in FY2019 (FY2018: approximately RMB73.9 million); (vi) the increase in share of loss of a joint venture of approximately RMB67.3 million; and (vii) the recognition of loss on deemed partial disposal of equity interest of an associate of approximately RMB60.4 million in FY2019 (FY2018: nil), which was partially offset by (i) the substantial decrease in loss in respect of the change in fair value of derivative financial instruments of approximately RMB667.8 million; and (ii) the decrease in net exchange loss of approximately RMB94.7 million.

As at 31 December 2019, the Group had total assets of approximately RMB4,119.0 million, total liabilities of approximately RMB5,824.4 million and net liabilities of approximately RMB1,705.4 million. As at 31 December 2019, the Group's bank balances and cash amounted to approximately RMB253.4 million.

2. Background of and reasons for the entering into of the Supplemental Deed

On 27 July 2017, Goal Summit Limited (“**Goal Summit**”), a direct wholly-owned subsidiary of the Company, and Suncity International Holdings Limited (“**Suncity International**”) entered into an acquisition agreement (the “**Acquisition Agreement**”), pursuant to which Suncity International has conditionally agreed to sell, and Goal Summit has conditionally agreed to purchase, the entire equity interest of Star Admiral Limited (“**Star Admiral**”), together with all obligations, liabilities and debts owing or incurred by Star Admiral to Suncity International and its associates (the “**Acquisition**”). Pursuant to the Acquisition Agreement, the consideration of the Acquisition shall be payable by Goal Summit as follows: (i) as to HK\$303 million shall be payable by Goal Summit procuring the Company to issue Promissory Note in the principal amount of HK\$303 million to Suncity International (or as it may direct in writing) upon completion of the Acquisition; and (ii) as to HK\$297 million shall be payable by Goal Summit procuring the Company to issue the Convertible Bonds in the principal amount of HK\$297 million to Suncity International (or as it may direct in writing) upon of the Acquisition. The Acquisition Agreement and the transactions contemplated thereunder were duly approved by the then independent Shareholders at the extraordinary general meeting of the Company held on 21 November 2017 (the “**2017 EGM**”), and completion of the Acquisition subsequently took place on 28 August 2018. On the same day, the Convertible Bonds in the principal amount of HK\$177 million and HK\$120 million were issued by the Company to Star Hope and Better Linkage (as nominated by Suncity International), respectively.

The Convertible Bonds are interest-free and are convertible into the Conversion Shares at the Conversion Price of HK\$0.90 per Conversion Share. Any amount of the Convertible Bonds which remains outstanding on the date falling two (2) years from the date of issue of the Convertible Bonds (the “**Original Maturity Date**”) (i.e. 28 August 2020) shall be redeemed at its then outstanding principal amount. The Conversion Shares (upon exercise of the conversion rights attaching to the Convertible Bonds) will be allotted and issued pursuant to the specific mandate granted by the then

LETTER FROM ASTRUM

independent Shareholders at the 2017 EGM. For further details of the Acquisition Agreement and the Convertible Bonds, please refer to the Acquisition Circular. As at the Latest Practicable Date, all the Convertible Bonds remained outstanding.

During the regular review on the Group's financial position, the Management were aware of the forthcoming maturity of the Convertible Bonds in August 2020. According to the 2019 Annual Report, the Group had net current liabilities of approximately RMB3,282.3 million and net liabilities of approximately RMB1,705.4 million as at 31 December 2019. Bank balances and cash of the Group as at 31 December 2019 amounted to approximately RMB253.4 million (equivalent to approximately HK\$278.7 million), which was principally composed of the cash balance of a 51%-owned subsidiary of the Company (namely, Suntrust Home Developers, Inc. ("**SunTrust**"), a company incorporated in the Philippines and the shares of which are listed on The Philippine Stock Exchange, Inc. (stock code: SUN)) of approximately RMB175.9 million (equivalent to approximately HK\$193.5 million) for its operation and development and cannot be used for the Group's working capital and redemption of the Convertible Bonds. Having considered the facts that (i) the Convertible Bonds will become mature shortly on 28 August 2020; (ii) the cash position of the Group as at 31 December 2019 (after deducting the cash balance of SunTrust) amounted to RMB77.5 million (equivalent to approximately HK\$85.3 million) and was insufficient for full redemption of the outstanding Convertible Bonds on the Original Maturity Date (i.e. 28 August 2020); (iii) the financial position of the Group as at 31 December 2019 was in deficit; and (iv) the adverse impact on the Group's working capital for its operation if all available cash of the Group as at 31 December 2019 (i.e. approximately RMB77.5 million, equivalent to approximately HK\$85.3 million) were deployed in the repayment of the Convertible Bonds on the Original Maturity Date, the Management is of the view that the Group should maintain sufficient working capital for its operation, rather than to effect redemption of the Convertible Bonds on the Original Maturity Date.

The Management then commenced negotiation with the Bondholders on other feasible and permissible way to deal with the maturity of the Convertible Bonds other than the demand of cash redemption. As mentioned in the Letter from the Board, as at the Latest Practicable Date:

- (1) Mr. Chau, the beneficial owner of Star Hope, was interested in 4,991,643,335 Shares (through Fame Select Limited, a company in which Mr. Chau has 50% interest), representing approximately 74.87% of the existing issued share capital of the Company. In the event of full conversion of the Convertible Bonds held by Star Hope in the aggregate principal amount of HK\$177,000,000 together with those held by Better Linkage, 196,666,666 Conversion Shares will be issued to Star Hope and Mr. Chau will become interested in an aggregate of 5,188,310,001 Shares, representing approximately 74.15% of the enlarged issued share capital of the Company;
- (2) Mr. Lo, the beneficial owner of Better Linkage, was interested in 5,770,000 Shares (through Better Linkage and Ever Smart Capital Limited, companies wholly and beneficially owned by Mr. Lo) and 1,230,000 Shares as beneficial owner, representing approximately 0.10% of the existing issued share capital of the Company. In the event of full conversion of the Convertible Bonds held by Better Linkage in the aggregate principal amount of HK\$120,000,000 together with those held by Star Hope, 133,333,333 Conversion Shares will be issued to Better Linkage and Mr. Lo will become interested in an aggregate of 140,333,333 Shares, representing approximately 2.00% of the enlarged issued share capital of the Company; and

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- (3) Mr. Chau, Mr. Lo, Mr. Au Chung On John and Mr. Manuel Assis Da Silva and their respective associates are interested in an aggregate of 4,999,853,335 Shares, representing approximately 74.99% of the existing issued share capital of the Company.

In the event of full conversion of the Convertible Bonds held by Star Hope and Better Linkage, Mr. Chau, Mr. Lo, Mr. Au Chung On John and Mr. Manuel Assis Da Silva (all of them are Directors) and their respective associates were interested in an aggregate of 5,329,853,334 Shares, representing approximately 76.17% of the existing issued share capital of the Company. Full or partial conversion of the outstanding Convertible Bonds held by Star Hope and Better Linkage on the Original Maturity Date in the absence of the Extension will end up with less than 25% of the Company's issued share capital being held by the public as that required by Rule 8.08 of the Listing Rules. In light of the above, it appears that the Group could only either redeem the Convertible Bonds at maturity or extend the maturity date of the Convertible Bonds. In view of the financial position and the working capital needs of the Group as discussed above, on 3 July 2020, the Company and the Bondholders, after arm's length negotiation, entered into the Supplemental Deed to extend the maturity date of the outstanding Convertible Bonds by 24 months from the Original Maturity Date to the Extended CB Maturity Date (i.e. 28 August 2022) without alteration of other terms and conditions of the Convertible Bonds.

Upon enquiry, the Management advised us that they had considered other fund-raising methods to satisfy the cash redemption of the Convertible Bonds (such as by way of bank borrowings and equity financing) other than the Extension. The Company attempted to obtain bank loans or facilities with a loan size of HK\$300 million to HK\$600 million by approaching a financial institution in Macau and another financial institution in Hong Kong in June 2020. However, taking into account the financial performance and position of the Group (in particular, the net liabilities position of the Group), together with the uncertainties of the global economy caused by the outbreak of COVID-19 in early 2020, the banks expressed that the overall feasibility for granting a new credit line to the Group is relatively low. As such, the Board is of view that it is difficult for the Company to obtain new borrowings on terms satisfactory to the Group. As at 31 December 2019, the effective interest rate per annum of bank borrowings of the Group was 5.64%. Given the Convertible Bonds is interest free, we consider that the Extension is a more favorable option to the Group when comparing with raising extra bank loans.

As to equity fund-raising exercise, the Group has approached two securities firms about the possibility and feasibility of acting as placing agent for placing of new shares with the fund-raising size of HK\$300 million to HK\$600 million. However, no positive feedbacks from these securities firms were received by the Company. Based on the understanding of the Management, all securities firms approached by the Company are not prepared, under the current market sentiment, to act as placing agent of the Company for placing of new shares of the fund-raising size desirable by the Group. Furthermore, having considered the facts that (i) the Group had a net current liabilities position as at 31 December 2019; (ii) the proceeds from the subscription are for repayment of the outstanding Convertible Bonds but not for the development or expansion of the existing or new business of the Group; and (iii) the uncertainties of the global economy caused by the outbreak of COVID-19 in early 2020, the Board is of the view that it would be difficult for the Company to attract investors to subscribe for the new convertible bonds of the Company or to participate in the equity fund-raising exercise. In view of the above, we concur with the Management's view that equity financing is not a feasible and favorable financing alternative to the Company.

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Having considered the facts that (i) the Convertible Bonds will become mature shortly on 28 August 2020; (ii) the cash position of the Group as at 31 December 2019 (after deducting the cash balance of SunTrust) amounted to RMB77.5 million (equivalent to approximately HK\$85.3 million) and was insufficient for full redemption of the outstanding Convertible Bonds on the Original Maturity Date; (iii) the financial position of the Group as at 31 December 2019 was in deficit; (iv) the adverse impact on the Group's working capital for its operation if all available cash of the Group as at 31 December 2019 (i.e. approximately RMB77.5 million, equivalent to approximately HK\$85.3 million) were deployed in the repayment of the Convertible Bonds on the Original Maturity Date; (v) the Bondholders are not allowed to convert in full the outstanding Convertible Bonds before the Original Maturity Date as it would result in less than 25% of the Company's issued share capital being held by the public as that required by Rule 8.08 of the Listing Rules; and (vi) the Convertible Bonds is interest free which is a more favorable term to the Group when comparing with other fund raising methods, we concur with the Management's view that the Extension is the most desirable way to deal with the forthcoming maturity of the Convertible Bonds and is in the interests of the Company and the Shareholders as a whole.

3. Principal terms of the Supplemental Deed and the Convertible Bonds

Pursuant to the Supplemental Deed, the maturity date of the Convertible Bonds shall be extended by a period of 24 months, such that the maturity date of the Convertible Bonds will become 28 August 2022. As advised by the Management, the Extension was arrived at after arm's length negotiations between the Company and the Bondholders. Save and except for the Extension as mentioned above, all other terms and conditions of the outstanding Convertible Bonds shall remain unchanged.

Set out below are the principal terms of the Convertible Bonds:

Conversion price:	The initial Conversion Price is HK\$0.90 per Conversion Share (subject to adjustments).
Interest:	The Convertible Bonds shall not bear any interest.
Original Maturity Date:	28 August 2020, being the date falling two (2) years from the date of issue of the Convertible Bonds
Extended CB Maturity Date:	28 August 2022, or if such date is not a Business Day, the next Business Day

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Conversion period:

Provided that any conversion of the Convertible Bonds does not result in the public float of the Shares being less than 25% (or any given percentage as required by the Listing Rules) of the issued Shares of the Company, the holder(s) of the Convertible Bonds shall, subject to compliance with the procedures set out in the terms and conditions of the Convertible Bonds, have the right at any time during the period commencing from the date of issue of the Convertible Bonds up to 4:00 p.m. (Hong Kong time) on the Extended CB Maturity Date to convert the whole or part (in authorised denominations) of the outstanding principal amount of Convertible Bonds registered in its name into Shares at the Conversion Price.

Redemption:

Any amount of the Convertible Bonds which remains outstanding on the Extended CB Maturity Date shall be redeemed at its then outstanding principal amount.

The Company may at any time before the Extended CB Maturity Date by serving at least ten (10) days' prior written notice to the holder(s) of the Convertible Bonds with the total amount proposed to be redeemed from the holder(s) of the Convertible Bonds specified therein, redeem the Convertible Bonds (in whole or in part (in authorised denominations)) at 100% of the principal amount of such Convertible Bonds.

Any amount of the Convertible Bonds which is redeemed or converted will forthwith be cancelled.

Certificate in respect of the Convertible Bonds cancelled will be forwarded to or to the order of the Company and such Convertible Bonds may not be reissued or resold.

For further details of the principal terms of the Convertible Bonds, please refer to the Letter from the Board.

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In order to assess the fairness and reasonableness of the terms of the Convertible Bonds, we have identified a list of issue and subscription of convertible bonds/notes as announced by companies listed on the Stock Exchange (the “**Comparables**”) during the last three months prior to and including 3 July 2020, being the date of the Supplemental Deed. To the best of our knowledge and as far as we are aware of, we identified 26 transactions which were announced during the said three-month period and have not lapsed as at the Latest Practicable Date. Shareholders should, however, note that the businesses, operations and prospect of the Company are not the same as the Comparables. Notwithstanding that, we consider that the Comparables were determined under similar market conditions and sentiment and hence, provide a general reference on the key terms for this type of transaction in Hong Kong. Therefore, we consider that the Comparables are indicative in assessing the fairness and reasonableness of the key terms of the Convertible Bonds (including but not limited to the Conversion Price). The following table sets forth the relevant details of the Comparables:

Table 2: Details of the Comparables

Date of announcement	Name of Company	Stock code	Net asset/ (liabilities) attributable to owners of the company based on the latest available financial statement prior to the date of the relevant agreement (HK\$ million)	Duration (years)	Premium/ (discount) of conversion price over/ (to) the closing price of the last trading day prior to the date of the relevant agreement (“Premium/ (Discount) – Last Day”) (%)	Interest rate per annum (%)
30/06/2020	Huajun International Group Limited	377	2,918.8	5.0	245.45	0.000
29/06/2020	China Logistics Property Holdings Co., Ltd	1589	12,005.9	5.0	(5.06)	6.950
29/06/2020	Vobile Group Limited	3738	273.2 <i>(Note 1)</i>	2.0 <i>(Note 2)</i>	0.00	5.000
29/06/2020	Vobile Group Limited	3738	273.2 <i>(Note 1)</i>	2.0 <i>(Note 2)</i>	8.53	5.000
28/06/2020	Polyard Petroleum International Group Limited	8011	4.0	1.0	29.50	0.000
21/06/2020	Link Holdings Limited	8237	397.3	5.0	2.86	0.000
18/06/2020	China Automotive Interior Decoration Holdings Limited	48	193.7	2.0	31.58	0.500
18/06/2020	Standard Chartered PLC	2888	348,816.3 <i>(Note 1)</i>	Perpetual	(1.13) <i>(Note 1)</i>	6.000 <i>(Note 3)</i>

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Date of announcement	Name of Company	Stock code	Net asset/ (liabilities) attributable to owners of the company based on the latest available financial statement prior to the date of the relevant agreement <i>(HK\$ million)</i>	Duration <i>(years)</i>	Premium/ (discount) of conversion price over/ (to) the closing price of the last trading day prior to the date of the relevant agreement ("Premium/ (Discount) – Last Day") <i>(%)</i>	Interest rate per annum <i>(%)</i>
18/06/2020	Far East Horizon Limited	3360	33,141.3	5.0	21.61	2.500
17/06/2020	3SBio Inc.	1530	10,587.5	5.0	25.00	0.000
						<i>(Note 4)</i>
11/06/2020	Echo International Holdings Group Limited	8218	30.6	5.0	0.87	7.000
10/06/2020	Oriental Payment Group Holdings Limited	8613	83.6	2.0	100.00	7.000
						<i>(Note 5)</i>
05/06/2020	Huajun International Group Limited	377	2,918.8	5.0	222.58	0.000
04/06/2020	Asiaray Media Group Limited	1993	403.9	Perpetual	15.00	4.000
28/05/2020	GOME Retail Holdings Limited	493	12,759.9	3.0	37.91	5.000
				<i>(Note 6)</i>		
21/05/2020	Wai Chun Group Holdings Limited	1013	(176.5)	3.0	5.88	4.000
13/05/2020	Zhongsheng Group Holdings Limited	881	23,934.4	5.0	27.50	0.000
					<i>(Note 7)</i>	<i>(Note 8)</i>
07/05/2020	Weimob Inc.	2013	2,189.1	5.0	12.94	1.500
29/04/2020	China Environmental Technology Holdings Limited	646	(469.2)	3.0	1,111.76	12.000
					<i>(Note 9)</i>	
28/04/2020	Country Garden Services Holdings Company Limited	6098	5,910.5	1.0	10.99	0.000
27/04/2020	Quali-Smart Holdings Limited	1348	387.1	3.0	0.30	6.000
						<i>(Note 10)</i>
27/04/2020	China Dili Group	1387	9,474.2	10.0	(8.43)	0.000
24/04/2020	China Biotech Services Holdings Limited	8037	289.2	2.0	56.25	8.500
				<i>(Note 11)</i>		
24/04/2020	Kingsoft Corporation Limited	3888	15,176.9	5.0	27.50	0.625
						<i>(Note 12)</i>

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Date of announcement	Name of Company	Stock code	Net asset/ (liabilities) attributable to owners of the company based on the latest available financial statement prior to the date of the relevant agreement (HK\$ million)	Duration (years)	Premium/ (discount) of conversion price over/ (to) the closing price of the last trading day prior to the date of the relevant agreement ("Premium/ (Discount) – Last Day") (%)	Interest rate per annum (%)
19/04/2020	GOME Retail Holdings Limited	493	12,759.9	3.0 (Note 13)	66.44	5.000
07/04/2020	South China Financial Holdings Limited	619	833.1	3.0	0.00	0.000
		Maximum:		Perpetual	245.45 (Note 9)	12.000
		Minimum:		1.0	(8.43) (Note 9)	0.000
		Median:		3.0 (Note 14)	15.00 (Note 9)	3.250
		Average:		3.8 (Note 14)	37.36 (Note 9)	3.330
	Convertible Bonds:			4.0 (Note 15)	(26.83) (Note 16)	0.000

Source: the website of the Stock Exchange (www.hkex.com.hk)

Notes:

- For the purpose of illustration, these figures denominated in US\$, the official currency of the United States of America, has been converted into HK\$ at an exchange rate of US\$1.00=HK\$7.78.
- According to the announcement of Vobile Group Limited (stock code: 3738) ("**Vobile Group**") dated 29 June 2020, the convertible bonds will mature on the date falling two years from the issue date, which may, if agreed by Vobile Group and the bondholders, be extended to the date falling three years from the issue date. For our analysis purpose, the maturity date of the convertible bonds is set as the date falling two years from the issue date.
- According to the announcement of Standard Chartered PLC (stock code: 2888) dated 18 June 2020, the convertible securities bear interest in respect of the period from (and including) 26 June 2020 to (but excluding) 26 January 2026 (the "**First Reset Date**") at a fixed rate of 6.00% per annum. Thereafter, the interest rate will be reset on each reset date, being each date falling five, or an integral multiple of five, years after the First Reset Date. For our analysis purpose, we assume the interest rate of the convertible securities is 6.00%.

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4. According to the announcement of 3SBio Inc. (stock code: 1530) dated 17 June 2020, the convertible bonds are zero coupon and do not bear interest unless, upon due presentation thereof, payment of principal or premium (if any) is improperly withheld or refused. If the issuer (or as the case may be, the guarantor) fails to pay any sum in respect of the convertible bonds when the same becomes due and payable under the terms and conditions in relation to the convertible bonds, interest shall accrue on the overdue sum at the rate of 2% per annum. For our analysis purpose, we assume the interest rate of the convertible bonds is nil.
5. According to the joint announcement of Oriental Payment Group Holdings Limited (stock code: 8613) and China Smartpay Group Holdings Limited (stock code: 8325) dated 10 June 2020, the convertible bonds bear a coupon rate of 7.00% per annum. If the bondholders had not exercised any of its conversion rights to convert the whole or any part of the principal amount of the convertible bonds during the conversion period, such bondholder will be entitled to receive an additional interest at the rate of 10.00% per annum from the date of issue up to and including the maturity date chargeable on the principal amount of the convertible bonds. For our analysis purpose, we assume the interest rate of the convertible bonds is 7.00%.
6. According to the announcement of GOME Retail Holdings Limited (stock code: 493) (“**GOME Retail**”) dated 28 May 2020, the convertible bonds will initially mature on the date falling on the third anniversary of the issue date, which may be extended to the fifth anniversary of the issue date at the discretion of the bondholders holdings not less than $66\frac{2}{3}\%$ of aggregate principal amount of the convertible bonds then outstanding. For our analysis purpose, the maturity date of the convertible bonds is set as the date falling on the third anniversary of the issue date.
7. According to the announcement of Zhongsheng Group Holdings Limited (stock code: 881) (“**Zhongsheng Group**”) dated 13 May 2020, the conversion price of the convertible bonds will be a 27.50% premium to the greater of (i) HK\$34.80, being the closing price of the shares on 12 May 2020; and (ii) the arithmetic average of the volume weighted average price per share on the Stock Exchange on each of the two consecutive trading days commencing on and including 13 May 2020 and 14 May 2020. For our analysis purpose, we assume the Premium/(Discount) – Last Day represented by the conversion prices of Zhongsheng Group is 27.50%.
8. According to the announcement of Zhongsheng Group dated 13 May 2020, the convertible bonds do not bear any interest, save for any default interest of 4% per annum on any overdue sum. For our analysis purpose, we assume the interest rate of the convertible bonds is nil.
9. As the Premium/(Discount) – Last Day represented by the conversion price of China Environmental Technology Holdings Limited (stock code: 646) (“**China Environmental Technology**”) is exceptionally high as compared with those of other Comparables, we consider that the conversion price of China Environmental Technology is an outlier and have excluded it from our analysis for the Premium/(Discount) – Last Day represented by the Comparables.
10. According to the announcement of Quali-Smart Holdings Limited (stock code: 1348) (“**Quali-Smart**”) dated 27 April 2020, the convertible notes bear interest on its outstanding principal amount at the simple interest rate of six percent (6%) per annum. If Quali-Smart fails to pay any amount payable by it under the convertible notes on its due date, interest shall accrue on the overdue amount from the second day commencing from the due date to the date of actual payment of the overdue amount (both days inclusive) at a simple interest rate of twenty-four percent (24%) per annum accrued on a daily basis. For our analysis purpose, we assume the interest rate of the convertible notes is 6.00%.
11. According to the announcement of China Biotech Services Holdings Limited (stock code: 8037) (“**China Biotech**”) dated 24 April 2020, the convertible bonds will mature on the date falling on the last day of the 730-day period commencing from the completion date, which may be extended for one year if China Biotech and the subscriber agree in writing. For analysis purpose, the maturity date of the convertible bonds is set as the date falling on the last day of the 730-day period commencing from the completion date (i.e. 2 years).

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12. According to the announcement of Kingsoft Corporation Limited (stock code: 3888) dated 24 April 2020, the convertible notes bear interest on its principal amount at the simple interest rate of 0.625% per annum. Each convertible bond will cease to bear interest (i) subject to the terms and conditions in relation to the convertible bonds where the conversion right attached to it shall have been exercised by a bondholder, from and including the interest payment date immediately preceding the relevant conversion date, or if none, the closing date of the convertible bonds, or (ii) where a convertible bond is redeemed or repaid pursuant to the terms and conditions in relation to the convertible bonds, from the due date for redemption or repayment thereof unless, upon due presentation thereof, payment of principal or premium (if any) is improperly withheld or refused. In such event, it will continue to bear interest at 3.75% per annum (both before and after judgment) until whichever is earlier of (a) the day on which all sums due in respect of such convertible bond up to that day are received by or on behalf of the relevant holder, and (b) the day seven days after the trustee or the principal agent has notified bondholders of receipt of all sums due in respect of all the convertible bonds up to that seventh day. For our analysis purpose, we assume the interest rate of the convertible bonds is 0.625%.
13. According to the announcement of GOME Retail dated 19 April 2020, the convertible bonds will initially mature on the date falling on the third anniversary of the issue date, which may be further extended to the fifth anniversary of the issue date at the discretion of the bondholders holdings not less than $66\frac{2}{3}\%$ of aggregate principal amount of the convertible bonds then outstanding. For our analysis purpose, the maturity date of the convertible bonds is set as the date falling on the third anniversary of the issue date.
14. For our analysis purpose, the perpetual convertible bonds have been excluded from the calculation for the median and average of duration of the Comparables.
15. The duration of the Convertible Bonds is calculated based on the date of issue of the Convertible Bonds (i.e. 28 August 2018) and the Extended CB Maturity Date (i.e. 28 August 2022).
16. This figure represents the ratio of the Conversion Price of HK\$0.90 per Conversion Share to the closing price of HK\$1.23 per Share as quoted on the Stock Exchange on the last trading day prior to the date of the Supplemental Deed (the “**Last Trading Day**”).

(i) Duration

According to Table 2 above, the duration of the Comparables ranged from 1.0 year to perpetual with an average duration of approximately 3.8 years. The duration of the Convertible Bonds of 4.0 years from the date of issue to the Extended CB Maturity Date falls within the range of the duration of the Comparables. Therefore, we consider that the Extension is justifiable.

(ii) Initial Conversion Price

As illustrated in Table 2 above, the Premium/(Discount) – Last Day represented by the conversion prices of the Comparables ranged from a discount of approximately 8.43% to a premium of approximately 245.45%, with an average of a premium of approximately 37.36% and a median of a premium of approximately 15.00%. The Premium/(Discount) – Last Day represented by the Conversion Price is a discount of approximately 26.83%, which is outside the range of the Premium/(Discount) – Last Day represented by the conversion prices of the Comparables.

In this regard, we have reviewed and compared the financial position of the Comparables against that of the Company. According to the 2019 Annual Report, the Group had net current liabilities of approximately RMB3,282.3 million (equivalent to approximately HK\$3,610.5 million) and net liabilities attributable to owners of the Company of approximately RMB1,951.7 million (equivalent to approximately HK\$2,146.9 million) as at 31 December 2019. On the contrary, save for Wai Chun Group Holdings Limited (stock code: 1013, “**Wai Chun Group**”) having net liabilities of approximately HK\$176.5 million and China Environmental Technology (stock code: 646) having net liabilities of approximately HK\$469.2 million, issuers of all other

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Comparables are of positive net assets ranging from approximately HK\$4.1 million to approximately HK\$348,816.3 million based on their respective latest available financial reports prior to the date of the relevant agreements. The following table sets forth the details of convertible bonds issued by Wai Chun Group and China Environmental Technology, and the Convertible Bonds:

Table 3: Details of convertible bonds issued by Wai Chun Group and China Environmental Technology

Date of announcement	Name of Company	Stock code	Duration (years)	Net asset/ (liabilities) attributable to owners of the company based on the latest available financial statement prior to the date of the relevant agreement (HK\$ million)	Premium/ (discount) of conversion price over/(to) the closing price of the last trading day prior to the date of the relevant agreement (“Premium/ (Discount) – Last Day”) (%)	Interest rate per annum (%)
21/05/2020	Wai Chun Group	1013	3.0	(176.5)	5.88	4.000
29/04/2020	China Environmental Technology	646	3.0	(469.2)	1,111.76	12.000
	Convertible Bonds:		4.0	(2,146.9)	(26.83)	0.000

As shown in Table 3 above, notwithstanding that the Premium/(Discount) – Last Day represented by the conversion prices of convertible bonds issued by Wai Chun Group and China Environmental Technology were at a premium of approximately 5.88% and approximately 1,111.76%, respectively, both of these convertible bonds also bear interest rate of 4% and 12% respectively. Taking into consideration that (i) issuers of all other Comparables, except Wai Chun Group and China Environmental Technology, are of positive net assets which imply a much stronger and healthier financial position than that of the Company; (ii) Wai Chun Group and China Environmental Technology are the same as the Company with net liabilities but bondholders of convertible bonds issued by Wai Chun Group and China Environmental Technology were able to secure an interest (at a rate of 4% and 12%, respectively) in return for the risk associated with the investment in Wai Chun Group and China Environmental Technology, while the Bondholders have forgone their risk reward in terms of the interest, we are of the view that it will not be possible for the Group to secure other investors to accept zero coupon rate and it is commercially sensible that the Premium/(Discount) – Last Day represented by the Conversion Price of a discount of approximately 26.83% is lower than the lowest Premium/(Discount) – Last Day represented by the conversion prices of the Comparables.

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We were advised by the Management that during the negotiation between the Group and the Bondholders, in addition to the extension of maturity date, the Group has also discussed with the Bondholders regarding the possibility and feasibility of increasing the Conversion Price to a price closer to the prevailing market price of Shares. The Bondholders expressed that the extension of the maturity date of the Convertible Bonds was initially proposed by the Company in view of the cash position of the Group, rather than by the Bondholders. Having considered the Group's financial position and as a gesture of goodwill, the Bondholders agreed to extend the maturity date of the Convertible Bonds for a further two years without imposing any interest on the outstanding principal amount of the Convertible Bonds. However, it is not acceptable to the Bondholders for increasing the Conversion Price as it is completely not in the interests of the Bondholders. Although the Conversion Price of HK\$0.90 represents a discount of approximately 26.83% to the closing price of HK\$1.23 per Share on the Last Trading Day, the Group considers the Conversion Price acceptable given that (i) the Convertible Bonds are interest-free; (ii) the Group does not have sufficient cash to redeem the outstanding Convertible Bonds; (iii) it would be difficult for the Group to obtain new borrowings on terms satisfactory to the Group in view of the net current liabilities position of the Group as at 31 December 2019; (iv) it is unlikely the Group will be able to attract investors to subscribe for the new convertible bonds or to participate in equity fundraising exercise before the Original Maturity Date; and (v) the extension of the maturity date of the Convertible Bonds would ease the immediate financial pressure of the Group. Accordingly, the Group agreed to maintain the Conversion Price which was mutually agreed between the Company and Suncity International, which is wholly owned by Mr. Chau, at the time of entering into the Acquisition Agreement rather than adjusting the Conversion Price at the time of the entering into of the Amendment Agreement.

If we solely take into account the Premium/(Discount) – Last Day represented by the Conversion Price of a discount of approximately 26.83%, there is no doubt that the Conversion Price is, on a standalone basis, not fair and reasonable to the Independent Shareholders. Nevertheless, having considered the facts that (i) the Conversion Price was determined with reference to the then prevailing market price of the Shares before the entering into of the Acquisition Agreement (i.e. 27 July 2017) rather than the recent market price of the Shares before the entering into of the Supplemental Deed (i.e. 3 July 2020); (ii) the Conversion Price represents a premium of 57.89% over the closing price of HK\$0.570 per Share as quoted on the Stock Exchange on the last trading day immediately prior to the signing of the Acquisition Agreement (i.e. 26 July 2017); (iii) the Acquisition Agreement (including the Conversion Price) has been duly approved by the then independent Shareholders at the 2017 EGM; (iv) the extension of the maturity date of the Convertible Bonds was initially proposed by the Company in view of the cash position of the Group and the sole reason for entering into the Supplemental Deed is to extend the Original Maturity Date which would alleviate the liquidity and working capital pressure of the Group triggered by the redemption of the Convertible Bonds due on the Original Maturity Date; (v) the Bondholders agreed to extend the maturity date of the Convertible Bonds for a further two years without imposing any interest on the outstanding principal amount of the Convertible Bonds; (vi) the Conversion Price of HK\$0.90 per Conversion Share represents a premium of approximately 7.14% over the closing price of HK\$0.84 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and (vii) the benefits of the Extension as discussed in the paragraph headed “2. Background of and reasons for the entering into of the Supplemental Deed” above, we consider that the benefits of the Extension outweigh the discount of the Convertible Price and therefore, the Conversion Price is acceptable to the Independent Shareholders as a whole.

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(iii) Interest rate

As shown in Table 2 above, the interest rates of the Comparables ranged from nil to 12.00% per annum with an average interest rate of approximately 3.33% per annum. The zero coupon rate of the Convertible Bonds is equivalent to the lowest limit of the interest rates among the Comparables. Therefore, we consider that the interest rate of the Convertible Bonds is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

(iv) Conclusion

Notwithstanding that the Conversion Price represents a discount of approximately 26.83% to the closing price of Shares as at the Last Trading Day, having considered that (i) the duration of the Convertible Bonds of 4 years based on the Extended CB Maturity Date falls within the range of the duration of the Comparables; (ii) the zero coupon rate of the Convertible Bonds is equivalent to the lowest limit of the interest rates among the Comparables; and (iii) the reasons for and benefits of entering into the Supplemental Deed as discussed above, we are of the view that the principal terms of the Convertible Bonds (as amended by the Supplemental Deed) are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

4. Financial effects of the Extension

(i) Effect on liquidity

As stated in the 2019 Annual Report, the consolidated net current liabilities of the Group amounted to approximately RMB3,282.3 million as at 31 December 2019. Bank balances and cash of the Group amounted to approximately RMB253.4 million as at 31 December 2019. The Extension pursuant to the Supplemental Deed would allow the Group to delay cash outflow of HK\$297.0 million as a result of redemption of the Convertible Bonds held by the Bondholders. Having considered (i) the principal amount of the outstanding Convertible Bonds of HK\$297.0 million represents approximately 3.5 times of the available cash of the Group (after deducting the cash balance of SunTrust) of approximately RMB77.5 million (equivalent to approximately HK\$85.3 million) as at 31 December 2019; and (ii) the Convertible Bonds will become mature shortly on 28 August 2020, we are of the view that the Extension would alleviate the liquidity and working capital pressure of the Group triggered by the redemption of the Convertible Bonds due on the Original Maturity Date.

(ii) Effect on earnings

The zero coupon rate of the Convertible Bonds remains unchanged under the Extension. According to applicable accounting standard, a non-cash imputed finance cost and fair value changes on derivative components of the Convertible Bonds may be recorded in the consolidated statement of profit or loss and other comprehensive income during the extended period depending on the result of re-measurement of the fair value of the Convertible Bonds as at 28 August 2020 as well as each subsequent reporting date by independent valuer. In such case, financial effect on earnings would be similar to that in the previous two years.

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(iii) Effect on net assets

There may be changes in the fair value of the Convertible Bonds as a result of the Extension. The possible changes will be subject to the valuation from the independent valuer and the review of the Company's independent auditors in the Group's subsequent financial statements.

OPINION

Having taken into account the above principal factors and reasons, we consider that the terms of the Supplemental Deed are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and the entering into of the Supplemental Deed is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise, and we ourselves recommend, the Independent Shareholders to vote in favor of the ordinary resolution to be proposed at the EGM to approve the Supplemental Deed and the transactions contemplated thereunder.

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 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 SFO since 2011 and has participated in and completed various independent financial advisory transactions.

1. RESPONSIBILITY STATEMENT

This circular for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the 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 or this circular misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date was, as follows:

As at the Latest Practicable Date

<i>Authorised:</i>	<i>HK\$</i>
<u>50,000,000,000</u> Shares	<u>5,000,000,000</u>
<i>Issued and fully paid:</i>	
<u>6,666,972,746</u> Shares	<u>666,697,274</u>

Immediately following the full conversion of the Convertible Bonds

<i>Authorised:</i>	<i>HK\$</i>
<u>50,000,000,000</u> Shares	<u>5,000,000,000</u>
<i>Issued and fully paid:</i>	
6,666,972,746 Shares as at the Latest Practicable Date	666,697,274
330,000,000 Conversion Shares to be allotted and issued upon full conversion of the Convertible Bonds of an aggregate principal amount of HK\$297,000,000	33,000,000
<u>6,996,972,746</u>	<u>699,697,274</u>

3. DISCLOSURE OF INTERESTS

(I) Directors' and chief executive's interests in Shares, underlying Shares or debentures

As at the Latest Practicable Date, the interests of the Directors and the chief executive in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (the "Associated Corporations") as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under provisions of the SFO) or the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

(i) Long position in the Shares and/or the underlying Shares of the Company

Name of Director	Capacity/nature of interest	Number of Shares held	Number of underlying Shares held under equity derivatives	Total	Percentage of the issued share capital of the Company (Note 8)
Mr. Chau	Interest of controlled corporation	4,991,643,335 (Note 1)	1,742,820,512 (Note 2)	6,734,463,847	101.01%
Mr. Lo	Interest of controlled corporation	5,770,000 (Note 3)	133,333,333 (Note 4)	139,103,333	2.09%
	Beneficial owner	1,230,000	40,000,000 (Note 5)	41,230,000	0.62%
Mr. Au Chung On John	Beneficial owner	–	40,000,000 (Note 6)	40,000,000	0.59%
	Interest of spouse	400,000	–	400,000	0.01%
Mr. Manuel Assis Da Silva	Beneficial owner	290,000	3,000,000 (Note 7)	3,290,000	0.05%
	Interest of spouse	520,000	–	520,000	0.01%

Notes:

- This represents interests held by Mr. Chau through Fame Select, which holds 4,991,643,335 Shares. Mr. Chau has 50% interests in Fame Select and is therefore deemed to be interested in 4,991,643,335 Shares.
- Out of 1,742,820,512 underlying Shares, 1,546,153,846 underlying Shares and 196,666,666 underlying Shares were held by Fame Select and Star Hope respectively.

The 1,546,153,846 underlying Shares held by Fame Select represents the maximum of 1,546,153,846 conversion Shares to be issued upon the full conversion of the convertible bonds issued by the Company to Fame Select at the initial conversion price of HK\$0.26 (subject to adjustments). Mr. Chau has 50% interests in Fame Select and is therefore deemed to be interested in 1,546,153,846 underlying Shares.

The 196,666,666 underlying Shares held by Star Hope represents the maximum of 196,666,666 conversion Shares to be issued upon the full conversion of another convertible bonds issued by the Company to Star Hope at the initial conversion price of HK\$0.90 (subject to adjustments). Mr. Chau has 100% interests in Star Hope and is therefore deemed to be interested in 196,666,666 underlying Shares.

3. This represents interests held by Mr. Lo through Better Linkage and Ever Smart (companies wholly and beneficially owned by Mr. Lo).
4. This represents the maximum of 133,333,333 conversion Shares to be issued upon the full conversion of another convertible bonds issued by the Company to Better Linkage, at the initial conversion price of HK\$0.90 (subject to adjustments). Mr. Lo has 100% interests in Better Linkage and is therefore deemed to be interested in 133,333,333 underlying Shares.
5. Mr. Lo is interested in 40,000,000 share options at an exercise price of HK\$0.455 per Share to subscribe for Shares.
6. Mr. Au Chung On John is interested in 40,000,000 share options at an exercise price of HK\$1.920 per share to subscribe for Shares.
7. Mr. Manuel Assis Da Silva is interested in 3,000,000 share options at an exercise price of HK\$0.455 per Share to subscribe for Shares.
8. The percentage has been calculated based on the total number of Shares of the Company in issue as at the Latest Practicable Date (i.e. 6,666,972,746 Shares).

(ii) Long position in the shares and/or the underlying shares of the Company's associated corporation

Name of associated corporation	Name of Director	Capacity/nature of interest	Number of shares of the Company's associated corporation held	Percentage of the issued share capital of the Company's associated corporation (Note 2)
Summit Ascent Holdings Limited ("Summit Ascent")	Mr. Chau	Interest of controlled corporations (Note 1)	3,182,476,218	176.43%

Notes:

1. These 3,182,476,218 shares represent 49,302,000 shares of Summit Ascent beneficially owned by the Company, 397,006,464 shares of Summit Ascent beneficially held by Victor Sky Holdings Limited (“**Victor Sky**”), 73,953,000 shares of Summit Ascent and 595,509,696 shares of Summit Ascent that the Company and Victor Sky have irrevocably and unconditionally undertaken to Summit Ascent that, among other things, each of them shall subject to the granting of the whitewash waiver by the executive director of the Corporate Finance Division of the Securities and Futures Commission, accept in full pursuant to an irrevocable undertaking, and 2,066,705,058 underwritten shares agreed to be underwritten by Victor Sky as underwriter pursuant to an underwriting agreement dated 1 June 2020 (assuming full exercise of all share options other than those held by two independent non-executive directors of Summit Ascent). As at the Latest Practicable Date, (a) Victor Sky was wholly-owned by the Company; and (b) the Company was 74.87% owned by Fame Select, which was owned as to 50% by Mr. Chau and 50% by Mr. Cheng Ting Kong. By virtue of the SFO, Mr. Chau is deemed to be interested in the shares of Summit Ascent in which the Company is interested, including those in which Victor Sky is interested.
2. The percentage has been calculated based on the total number of shares of Summit Ascent in issue as at the Latest Practicable Date (i.e. 1,803,777,836 shares of Summit Ascent).

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive had any other interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its Associated Corporations which had been entered in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under provisions of the SFO) or the Model Code.

4. DIRECTORS’ INTERESTS IN ASSETS, CONTRACT OR ARRANGEMENT

On 6 February 2017, Sun Travel Ltd. (“**Sun Travel**”), an indirect wholly-owned subsidiary of the Company, and Sun City Gaming Promotion Company Limited (“**Sun City Gaming Promotion**”), a company wholly owned by Mr. Chau, entered into two agreements in relation to (i) the supply of hotel accommodation and related services by Sun City Gaming Promotion to Sun Travel, as amended by the supplemental agreement dated 15 May 2017 and (ii) the supply of ferry tickets and related services by Sun Travel to Sun City Gaming Promotion, respectively (together, the “**2017 CCT Agreements**”). As Sun City Gaming Promotion is wholly owned by Mr. Chau, Mr. Chau is deemed to have a material interest in the 2017 CCT Agreements.

On 27 July 2018, the Company entered into a loan facility agreement with Star Hope, a company which is beneficially wholly owned by Mr. Chau as lender for an unconditional loan facility of up to HK\$400,000,000 and as at the Latest Practicable Date, the entire HK\$400,000,000 has been drawn down by the Group from such facility. The facility is unsecured, interest bearing at 3.5% per annum and repayable after 60 months from the date of the facility (or such longer period as the lender and the Group may agree).

On 8 April 2019, the Company entered into a loan facility agreement with Star Hope as lender for an unconditional loan facility of up to HK\$1,500,000,000 and as at the Latest Practicable Date, approximately HK\$991,000,000 has been drawn down by the Group from such facility. The facility is unsecured, interest bearing at 3.5% per annum and repayable after 60 months from the date of the facility (or such longer period as the lender and the Group may agree).

On 30 October 2019, the Company entered into a loan facility agreement with Star Hope as lender for an unconditional loan facility of up to HK\$1,750,000,000 and as at the Latest Practicable Date, approximately HK\$570,000,000 has been drawn down by the Group from such facility. The facility is unsecured, interest bearing at 3.5% per annum and repayable after 60 months from the date of the facility (or such longer period as the lender and the Group may agree).

On 5 November 2019, Sun Travel and Sun City Gaming Promotion entered into two agreements in relation to (i) the supply of hotel accommodation and related services by Sun City Gaming Promotion to Sun Travel and (ii) the supply of travel related products and services including ferry tickets between Hong Kong and Macau, entertainment tickets/vouchers, travel packages and other transportation tickets by Sun Travel to Sun City Gaming Promotion, respectively (together, the “**2019 CCT Agreements**”). As Sun City Gaming Promotion is wholly owned by Mr. Chau, Mr. Chau is deemed to have a material interest in the 2019 CCT Agreements.

On 6 March 2020, the Company entered into a loan facility agreement with Star Hope as lender for an unconditional loan facility of up to HK\$320,000,000 and as at the Latest Practicable Date, approximately HK\$183,000,000 has been drawn down by the Group from such facility. The facility is unsecured, interest bearing at 3.5% per annum and repayable after 60 months from the first drawdown date of the facility (or such longer period as the lender and the Group may agree).

On 21 May 2020, the Company entered into a loan facility agreement with Star Hope as lender for an unconditional loan facility of up to HK\$1,650,000,000 and as at the Latest Practicable Date, the entire HK\$1,650,000,000 has been drawn down by the Group from such facility. The facility is unsecured, interest bearing at 3.5% per annum and repayable after 60 months from the first drawdown date of the facility (or such longer period as the lender and the Group may agree).

As at the Latest Practicable Date, the Group has outstanding convertible bond (“**2016 Convertible Bond**”) with a principal amount of HK\$402,000,000 held by Fame Select, the immediate holding company of the Company which is owned as to 50% by Mr. Chau. The 2016 Convertible Bond will mature on 7 December 2020 and is non-interest bearing. The 2016 Convertible Bond is convertible into Shares at the conversion price of HK\$0.26 per Share (subject to adjustments).

As at the Latest Practicable Date, the Group has outstanding convertible bond (“**2018 Convertible Bond**”) with a principal amount of HK\$297,000,000 held by Star Hope, a company beneficially wholly owned by Mr. Chau and Better Linkage, a company beneficially wholly owned by Mr. Lo, an executive Director of the Company respectively. Pursuant to the Supplemental Deed which will only become effective upon all the Conditions Precedent having been fulfilled, the 2018 Convertible Bond will mature on 28 August 2022 and is non-interest bearing. The 2018 Convertible Bond is convertible into Shares at the conversion price of HK\$0.90 per Share (subject to adjustments).

Save as disclosed above, as at the date of this circular, there was no contract or arrangement subsisting in which any Director was materially interested and which was significant in relation to any business of the Group.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which had been since 31 December 2019 (being the date to which the latest published audited consolidated financial statements of the Company were made up) acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any existing or proposed service contract with the any member of the Group which was not determinable by the relevant member of the Group within one year without payment of compensation (other than statutory compensation).

6. MATERIAL ADVERSE CHANGE

Due to the seize of certain portion of the investment properties in relation to the 2013 Litigation as described in “Appendix I (General Information) – 9. Litigation” in this circular, a subsidiary of the Group was in breach of the covenants of in respect of a bank borrowing, which led to an event of default for such bank borrowing. Accordingly, the bank borrowing amounting to RMB55,000,000 is reclassified from non-current liabilities to current liabilities as of 31 December 2019. On discovery of the breach, the Company has informed the relevant bank and commenced negotiations to obtain waiver from strict compliance on the relevant financial covenants.

Save as disclosed above and the section headed “49. EVENTS AFTER THE REPORTING PERIOD” in the 2019 Annual Report, as at the Latest Practicable Date, the Directors confirmed there has not been any material adverse change in the financial or trading position of the Group since 31 December 2019 (being the date to which the latest published audited financial statements of the Group were made up) up to and including the Latest Practicable Date.

7. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors nor any of their close associates had interest in any business apart from the Group’s business which competed or would likely to compete, either directly or indirectly, with the businesses of the Group.

8. QUALIFICATION AND CONSENT OF EXPERT

- (a) The following sets out the qualifications of the expert who have given their opinions or advice or statements as contained in this circular:

Name	Qualification
Astrum	a licensed corporation under the SFO to carry out Type 1 (design in securities), Type 2 (dealing in futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities

- (b) As at the Latest Practicable Date, the above expert had no shareholding in the Company or any other member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company or any other member of the Group.
- (c) As at the Latest Practicable Date, the above expert had no direct or indirect interests in any assets which had been acquired or disposed of by or leased to any member of the Group since 31 December 2019 (being the date to which the latest published audited consolidated financial statements of the Company were made up) or proposed to be so acquired, disposed of or leased to any member of the Group.
- (d) The above expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter, reports or its name in the form and context in which they respectively appear.

9. LITIGATION

As disclosed in the annual report of the Company for year ended 31 December 2019 (the “**2019 Annual Report**”), a subsidiary of the Group (the “**Defendant**”) was involved in a litigation with an individual (the “**Plaintiff**”) in respect of the right to use of an area located at certain investment properties of the Group (the “**Unit**”) during 2013 (the “**2013 Litigation**”). The Plaintiff claimed that she had a lease agreement regarding the right to use the Unit for the period from 26 September 2011 to 24 October 2062 and sought for damages in respect of the loss arising from failing to use of the Unit (the “**Claim**”). Four judgments were handed down between 2014 and 2019. The judge rejected all the demands from the Plaintiff in the first and second hearings, however at the end of 2018, the judge accepted the appeal by the Plaintiff and remanded the case for a re-trial in the Shenzhen People’s Court.

According to the judgements of the court dated 7 May 2019 and 27 May 2019, certain portion of the investment properties of the Group with fair value of approximately RMB533,000,000 was seized for the period from 10 May 2019 to 9 May 2022.

On 15 September 2019, the Defendant was ordered to (i) compensate the Plaintiff for an amount of RMB1,595,136 for the loss of rental income of the Unit for the period from 26 October 2011 to 25 June 2019 and (ii) bear the legal cost of approximately RMB29,000 (the “**September Judgement**”).

As at the Latest Practicable Date, the Plaintiff has filed for an appeal to further claim for damages with respect to the right of use of the Unit between 26 September 2011 and 24 October 2062.

The Defendant has also filed for an appeal with respect to the September Judgement. No court hearing date has been fixed as at the Latest Practicable Date. Based on a legal opinion obtained, the Defendant may be liable to potential damages of approximately RMB27,800,000 in aggregate in connection with the 2013 Litigation. As at the Latest Practicable Date, the Group has made provision of RMB27,800,000 for potential liability of the Claim.

In addition, the Group was involved in several litigations in relation to the construction of the Group's properties under development in the PRC with several contractors and suppliers, who are independent third parties to the Company. Based on the view that the legal proceeding was still in progress and with reference to the legal opinion obtained from the Company's PRC lawyer, the management considered that the likelihood for further outflow of resources of the Group was not probable.

Save as disclosed above, as at the Latest Practicable Date, to the best of the Directors' knowledge information and belief, 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 against any member of the Group that would have a material adverse effect on the results of operation or financial condition of the Group.

10. MISCELLANEOUS

In the event of inconsistency, the English text of this circular and the accompanying form of proxy shall prevail over the Chinese text.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours from 9:30 a.m. to 5:30 p.m. on any business days from the date of this circular up to and including 14 days (except public holidays) at the Company's principal place of business in Hong Kong situated at Unit 1705, 17/F., West Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong:

- (a) the Supplemental Deed;
- (b) the CB Instrument;
- (c) the written consent as referred to in paragraph 8 of this appendix; and
- (d) this circular.

NOTICE OF EGM



SUNCITY GROUP HOLDINGS LIMITED

太陽城集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1383)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**EGM**”) of the shareholders (the “**Shareholders**”) of Suncity Group Holdings Limited (the “**Company**”) will be held at Jade Room, Artyzen Club, 401A, 4th Floor, Shun Tak Centre, 200 Connaught Road Central, Hong Kong on Friday, 21 August 2020 at 2:30 p.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution of the Company:

Capitalised terms used in this notice have the same meanings as those defined in the circular of the Company dated 31 July 2020.

ORDINARY RESOLUTION

“THAT

- (a) the entering into of the Supplemental Deed (a copy of the Supplemental Deed 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 but not limited to the Extension) be and are hereby approved, confirmed and ratified;
- (b) the Directors be and is/are hereby granted the specific mandate to allot and issue of the conversion shares upon exercise of the conversion rights attached to the Convertible Bonds in accordance with the terms and conditions of the Convertible Bonds as altered by the Supplemental Deed; and

NOTICE OF EGM

- (c) any one or more Directors be and is/are hereby authorised to sign, execute, perfect, deliver and do all such documents, deeds, acts, matters and things, as the case may be, as they may in their discretion consider necessary desirable or expedient to carry out and implement the Supplemental Deed and the transactions contemplated thereunder into full effect and to agree to such variation, amendment or waiver as are in the reasonable opinion of the Directors in the interests of the Company and its Shareholders as a whole provided that such variation, amendment or waiver shall not be fundamentally different from the terms as provided in the Supplemental Deed.”

By order of the Board
SUNCITY GROUP HOLDINGS LIMITED
Chau Cheok Wa
Chairman

Hong Kong, 31 July 2020

Registered office:

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

Principal place of business in Hong Kong:

Unit 1705, 17/F., West Tower
Shun Tak Centre
168–200 Connaught Road Central
Hong Kong

Notes:

1. Any Shareholder entitled to attend and vote at the EGM shall be entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a Shareholder. 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.
2. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s); and for this purpose seniority shall be determined as the person so present whose name stands first on the register of members in respect of such share shall alone be entitled to vote in respect thereof.
3. In order to be valid, a form of proxy must be deposited at the Company’s Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong together with the power of attorney or other authority (if any) under which it is signed (or a certified copy thereof) not less than 48 hours before the time appointed for the holding of the above meeting or any adjournment thereof (as the case may be). The completion and return of the form of proxy shall not preclude members of the Company from attending and voting in person at the above meeting (or any adjourned meeting thereof) if they so wish.
4. The register of members of the Company will be closed from 18 August 2020 to 21 August 2020 (both days inclusive) for determining the identity of the Shareholders who are entitled to attend and vote at the EGM. No transfer of Shares will be registered during this period. Shareholders whose name appears on the register of members of the Company on 21 August 2020 shall be entitled to attend and vote at the EGM. In order to be eligible to attend and vote at the EGM, unregistered holders of the Shares should ensure that all transfer forms accompanied by the relevant share certificates must be lodged with the share registrar and transfer office of the Company, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, for registration no later than 4:30 p.m. on 17 August 2020.

NOTICE OF EGM

PRECAUTIONARY MEASURES FOR THE EGM

At the time of publishing this notice the coronavirus (COVID-19) situation in Hong Kong is still developing and the situation at the time of the EGM is difficult to predict. The Company will closely monitor the development of the COVID-19 pandemic and any regulations or measures introduced or to be introduced by the Hong Kong Government in relation to COVID-19 pandemic. The Company will ensure that the EGM will be conducted in compliance with the regulations or measures of the Hong Kong Government and Shareholders will not be deprived of their right of voting on the resolutions to be proposed at the EGM. The Company reminds attendees that they should carefully consider the risks of attending the EGM, taking into account their own personal circumstances. Furthermore, the Company would like to remind shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising their voting rights and strongly recommends shareholders to appoint the chairman of the EGM as their proxy and submit their form of proxy as early as possible.

Should the coronavirus continue to affect Hong Kong at or around the time of the EGM, the Company may implement precautionary measures at the EGM in the interests of the health and safety of the attendees of the EGM which include without limitation:

1. All attendees will be required to wear surgical face masks before they are permitted to attend, and during their attendance of, the EGM. Attendees are advised to observe good personal hygiene and maintain appropriate social distance with each other at all times when attending the EGM.
2. There will be compulsory body temperature screening for all persons before entering the EGM venue. Should anyone seeking to attend the EGM decline to submit to temperature testing or be found to be suffering from a fever with a body temperature of 37.3 degrees Celsius or above or otherwise unwell, the Company will request such persons to stay in an isolated place for completing the voting procedures.
3. Attendees may be asked if (i) he/she has travelled outside of Hong Kong within 14 days immediately before the EGM; (ii) he/she is subject to any HKSAR Government prescribed quarantine requirement; and (iii) he/she has any flu-like symptoms or close contact with any person under quarantine or with recent travel history. Any person who responds positively to any of these questions will be requested to stay in an isolated place for completing the voting procedures.
4. Appropriate distancing and spacing in line with the guidance from the HKSAR Government will be maintained and as such, the Company may limit the number of attendees at the EGM as may be necessary to avoid over-crowding.
5. Each attendee will be assigned a designated seat to facilitate contact tracing and to ensure appropriate social distancing.
6. No gifts, food or beverages will be provided at the EGM.
7. Company staff and representatives at the EGM venue will assist with crowd control and queue management to ensure appropriate social distancing.
8. Due to the constantly evolving COVID-19 pandemic situation, the Company may implement further changes and precautionary measures in relation to the EGM arrangements at short notice. Shareholders should check the Company's website.