SFUND INTERNATIONAL HOLDINGS LIMITED
廣州基金國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1367)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

Reference is made to the annual report of SFund International Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") for the year ended 31 December 2019 (the "**Annual Report**"). Unless otherwise defined, terms used herein shall bear the same meanings as defined in the Annual Report.

In addition to the information provided in the Annual Report, the board (the "**Board**") of directors (the "**Directors**") of the Company would like to provide supplemental information in relation to Note 17 (Goodwill), Note 18 (Intangible assets) and Note 22 (Accounts receivables) to the consolidated financial statements of the Company on pages 121 to 123, 123 to 124 and 126 to 130 of the Annual Report respectively.

Impairments related to the account receivables and goodwill for the fund management business in the PRC

湖南匯垠天星股權投資私募基金管理有限公司 (Hunan Huiyin Tianxing Private Equity Investment Fund Management Co., Ltd*) ("**Hunan Huiyin Tianxing**"), a 51%-owned subsidiary of the Company, is the fund manager of 湖南匯垠湘天投資合夥企業 (Hunan Huiyin Xiangtian Investment Partnership*) ("**Hunan Huiyin XT**") and 湖南匯垠眾益投資合夥企業 (Hunan Huiyin Zhongyi Investment Partnership*) ("**Hunan Huiyin ZY**"), both of which are investment funds registered in the Mainland China (collectively, the "**PRC Funds**"). Hunan Huiyin Tianxing had overdue fund management fee receivables of approximately HK$12,340,000 and HK$7,894,000 as at 30 June 2019 and approximately HK$12,314,000 and HK$7,877,000 as at 31 December 2019 due from Hunan Huiyin XT and Hunan Huiyin ZY respectively. The Group also had a goodwill amounting to approximately HK$8,436,000 as at 31 December 2018 related to Hunan Huiyin Tianxing, which arose from completion of capital injection by the Group to Hunan Huiyin Tianxing in November 2017.

Hunan Huiyin XT and Hunan Huiyin ZY own approximately 13.33% and 10.67% respectively in 唐山境界實業有限公司 (Tangshan Jingjie Industry Co., Ltd*) ("**Tangshan Jingjie** "), an investee company of the PRC Funds. Due to the fact that Tangshan Jingjie failed to fulfill the performance undertakings for 2016, 2017 and 2018, the obligation to repurchase the shares of Tangshan Jingjie by Tangshan Jingjie and two individuals who are the shareholders of Tangshan Jingjie was triggered. In May 2019, the PRC Funds have applied to China International Economic and Trade Arbitration Commission Shanghai Branch ("**CIETAC (Shanghai)**") for arbitration. In June 2019, CIETAC (Shanghai) issued notifications to the PRC Funds that it accepted the arbitration cases. The PRC Funds have, through CIETAC (Shanghai), applied to the relevant local courts to issue property preservation measures on Tangshan Jingjie and the aforementioned shareholders of Tangshan Jingjie. Based on the information available to the Company and the legal opinion from PRC lawyer obtained by the Group (the "**Legal Opinion**"), as at 29 August 2019, the value of properties under the property preservation measures amounted to approximately RMB2.0 billion but certain properties of which are pledged to the banks.

The Group was first informed by the PRC Funds of the above incident in August 2019. In this regard, the Company conducted a comprehensive assessment on the recoverability of the aforesaid overdue fund management fee receivables of approximately HK$12,340,000 and HK$7,894,000 as at 30 June 2019 and discussed with the then auditors of the Company, Ernst & Young (the "**Former Auditors**"). The Group obtained the Legal Opinion on 29 August 2019 stating that, based on evidence on hand, the PRC Funds had a higher chance of success in the court and being recomposed. In addition, the Company also engaged Eidea Professional Services Company Limited (the "**Valuer**"), an independent third party, to conduct valuation of expected credit loss on the fund management fee receivables as well as the value in use of Hunan Huiyin Tianxing, both of which had values according to the respective valuation reports.

Mr. Tony Lau is the key person who was involved in the aforesaid valuations as well as other valuations as detailed in this announcement below. He is the founder and the managing director of the Valuer, and qualifies for the Royal Institution of Chartered Surveyors professional member and possesses more than 15 years of work experience in business and property valuations. Ms. Stella Lam, who has more than 3 years of experience in business valuation and valuation of intangible assets, assisted in these valuations.

Notwithstanding the Legal Opinion and the aforesaid valuation reports, after further discussion with the Former Auditors, which had significant doubt on the recoverability of the overdue fund management fee receivables, it was agreed that a more prudent approach would be adopted. Accordingly, the Group recognised a reviewed impairment amounted to HK$20.1 million on management fee receivables, as well as a reviewed impairment on the goodwill of approximately HK$8.4 million related to Hunan Huiyin Tianxing for the six months period ended 30 June 2019 on the ground that the PRC Funds accounted for the majority of assets of Hunan Huiyin Tianxing, when the Company published its interim results announcement dated 30 August 2019. As such, the impairment had already been reflected in the interim results announcement for the six months period ended 30 June 2019, and the impairments were properly and timely made and announced.For the year ended 31 December 2019, after the audit of the consolidated financial statements of the Group by the auditors of the Company, ZHONGHUI ANDA CPA LIMITED (the "**Auditors**"), the Group recognised an impairment amounted to HK$20.1 million on management fee receivables as well as an impairment on the goodwill of approximately HK$8.4 million for the year ended 31 December 2019 related to the PRC Funds and Hunan Huiyin Tianxing as disclosed on pages 129 to 130 and 122 of the Annual Report respectively. There were no further impairment in the second half of 2019, i.e. six months period ended 31 December 2019, as the management fee receivables and the goodwill had already been fully impaired as at 30 June 2019.

Impairments related to goodwill and intangible assets for the financial services business in Hong Kong

As at 31 December 2018, related to its subsidiaries carrying out Type 1 (Dealing in Securities) ("**Securities Dealing**"), Type 4 (Advising on Securities) and Type 9 (Asset Management) ("**Asset Management**") regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) in Hong Kong, the Company had a carrying amount of goodwill and intangible assets (being the direct costs incurred for the acquisition of licences for the aforesaid regulated activities issued by the Securities and Futures Commission) amounting to approximately HK$2,674,000 and HK$16,200,000 respectively allocated to the relevant cash-generating units (the "**CGU(s)**") for impairment testing as disclosed on pages 122 and 123 of the Annual Report respectively.

When the Company carried out impairment test for the goodwill and intangible assets related to the Securities Dealing CGU and the Asset Management CGU for the six months ended 30 June 2019, the Company appointed the Valuer to conduct valuation.

The Valuer conducted the valuation both (i) on a fair value basis using sales comparison approach under the market approach; and (ii) on a value in use basis using cash flow projections based on financial budgets approved by the management covering a five-year period.

For the valuation conducted on a fair value basis, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In this case, the Valuer adopted the sales comparison approach under the market approach, which provides an indication of value by comparing the subject asset with identical or similar assets for which price information is available. The sales comparison approach implicitly assumes that the value of a subject asset depends on what other comparable are selling for in the current market. Recent sales and offering prices are analysed and adjusted for any differences in location, time of sales, terms and conditions, etc. between the subject asset and the comparables. The sales comparison approach relies on a reasonable number of comparable sales to gauge what the investors are willing to pay for the subject asset; therefore, it is a reliable method when the market is active.

For the valuation conducted on a value in use basis, under Hong Kong Accounting Standard 36 – Impairment of Assets, value in use is defined as the present value of the future cash flows expected to be derived from an asset or cash generating unit. Under valuation on the value in use basis, the following elements shall be reflected in the calculation of an assets' value in use:

(1) an estimate of the future cash flows the entity expects to derive from the asset;

(2) expectations about possible variations in the amount or timing of those future cash flows;

(3) the time value of money, represented by the current market risk-free rate of interest;

(4) the price for bearing the uncertainty inherent in the asset; and

(5) other factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.

After discussion among the Company, the Former Auditors and the Valuer, in view of the availability of recent transactions in an active market, the sales comparison approach under the market approach was adopted, which was the same method when the Company determine the fair values for the year ended 31 December 2018. Based on the valuation, no impairment was recognised as at 30 June 2019.

During the audit review for the year ended 31 December 2019, the Company also engaged the Valuer for assessing the carrying amount of goodwill and intangible assets related to the Securities Dealing CGU and the Asset Management CGU. The Valuer also conducted the valuation both (i) on a fair value basis using sales comparison approach under the market approach; and (ii) on a value in use basis using cash flow projections based on financial budgets approved by the management covering a five-year period.

The Company, the Auditors and the Valuer had been in active discussion on which valuation to adopt for the impairment testing. Shortly before the publication of the annual result announcement of the Company dated 30 March 2020 for the year ended 31 December 2019, the Auditors expressed concern on the absence of recent transactions in an active market, which rendered the cash flow projections method more appropriate and reliable than the market approach. Accordingly, the valuation method adopted was changed from market approach for assessing fair value for the year ended 31 December 2018 and the six months ended 30 June 2019 to value in use calculation using cash flow projections for the recoverable amount of the Securities Dealing CGU and the Asset Management CGU for the year ended 31 December 2019.

The value in use calculation uses cash flow projections based on financial budgets approved by management of the Group covering a 5-year period, and discount rates of 10.1% and 10.5% for the Securities Dealing CGU and the Asset Management CGU respectively. Cash flows beyond 5-year period are projected using 2.5% growth rate. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGU. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted revenue from regulated financial services business, such estimations are based on the CGU's past performance and management's expectations for the market development.

Due to the unfavourable income forecast in future, impairments of approximately HK$2,674,000 (being 100% of carrying amount of goodwill as at 31 December 2018) and HK$13,100,000 (being approximately 80.9% of carrying amount of intangible assets as at 31 December 2018) for the goodwill and the intangible assets respectively related to the CGUs were recognised for the year ended 31 December 2019 as disclosed on pages 123 and 124 of the Annual Report respectively.

By order of the Board
SFund International Holdings Limited
Li Qing
Chairman

Hong Kong, 11 November 2020

As at the date of this announcement, the executive Directors are Mr. Li Qing, Mr. Lam Kwan Sing, Mr. Yu Wenhao, Ms. Wang Mengsu, Mr. Lin Qiansheng and Mr. Hon Ming Sang and the independent non-executive Directors are Mr. Fok Ho Yin, Thomas, Mr. Chan Wai Cheung, Admiral and Mr. Lam Ho Pong.

* *The English translation of Chinese names or words in this announcement are included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.*