中國幸福投資(控股)有限公司
China Fortune Investments (Holding) Limited

(incorporated in the Cayman Islands with limited liability)

(Stock code: 8116)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

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

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

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000 (Re-presented)
Continuing operations			
Revenue	4	**249,033**	215,806
Cost of sales		**(203,781)**	(150,060)
Gross profit		**45,252**	65,746
Other income, gains and losses	4	**(35,224)**	4,105
Selling and distribution expenses		**(6,763)**	(6,094)
Administrative expenses		**(34,367)**	(29,440)
(Loss) profit from continuing operations		**(31,102)**	34,317
Finance costs	5	**(43,645)**	(26,956)
(Loss) profit before tax		**(74,747)**	7,361
Income tax expense	6	**(2,898)**	(6,952)
(Loss) profit for the year from continuing operations	7	**(77,645)**	409
Discontinued operation	8		
Profit for the period from discontinued operation		**23,262**	1,936
Loss on de-consolidation of subsidiaries		**(288,084)**	–
		(264,822)	1,936
(Loss) profit for the year		**(342,467)**	2,345
(Loss) profit for the year attributable to:			
Owners of the Company		**(342,473)**	2,461
Non-controlling interests		**6**	(116)
		(342,467)	2,345
(Loss) earnings per share	10		
Basic and diluted			
– For continuing and discontinued operation		**(HK11.30 cents)**	HK0.09 cents
– For continuing operations		**(HK2.56 cents)**	HK0.02 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018	2017
	HK$'000	*HK$'000*
		(Re-presented)
(Loss) profit for the year	**(342,467)**	2,345
Other comprehensive (expense) income		
Items that may be subsequently reclassified to profit or loss:		
Exchange differences on translation of foreign operations	**3,943**	705
Release of foreign currency translation reserve upon deconsolidation of subsidiaries	**(4,648)**	–
Other comprehensive (expense) income for the year, net of tax	**(705)**	705
Total comprehensive (expense) income for the year	**(343,172)**	3,050
Total comprehensive (expense) income attributable to:		
Owners of the Company	**(343,178)**	3,166
Non-controlling interests	**6**	(116)
Total comprehensive (expense) income for the year	**(343,172)**	3,050

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment		**5,116**	45,379
Deferred tax assets		**216**	–
Goodwill		**70,084**	260,587
Other intangible asset	*11*	**–**	49,816
Deposits and prepayments		**1,210**	1,067
		76,626	356,849
Current assets			
Inventories		**131,305**	68,002
Trade receivables	*12*	**127,231**	100,057
Loan and interest receivables		**6,880**	10,150
Other receivables, deposits and prepayments		**23,030**	87,693
Cash and cash equivalents		**23,120**	226,150
		311,566	492,052
Current liabilities			
Trade payables	*13*	**1,212**	873
Accruals, other payables and deposits received		**6,535**	97,387
Secured bank borrowings		**–**	662
Amounts due to directors		**5,116**	5,834
Tax payables		**752**	7,863
Convertible bonds		**56,960**	70,401
Contingent consideration payables		**–**	49,564
Promissory note payables		**79,350**	–
		149,925	232,584
Net current assets		**161,641**	259,468
Total assets less current liabilities		**238,267**	616,317

	2018	2017
	HK$'000	*HK$'000*
Non-current liabilities		
Other payables	**6,778**	559
Secured bank borrowings	**–**	4,501
Convertible bonds	**92,028**	88,912
Promissory note payables	**80,590**	72,449
Deferred tax liabilities	**–**	10,943
Contingent consideration payables	**–**	42,775
	179,396	220,139
Net assets	**58,871**	396,178
Capital and reserves		
Issued capital	**15,156**	15,156
Reserves	**43,339**	380,652
Equity attributable to owners of the Company	**58,495**	395,808
Non-controlling interests	**376**	370
Total equity	**58,871**	396,178

1. GENERAL

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 13 October 1999 under the Companies Law of the Cayman Islands and its shares are listed on the GEM of the Stock Exchange of Hong Kong Limited ("Stock Exchange").

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and amendments to HKFRSs that are mandatorily effective for the current year

The Company has applied the following new and amendments to HKFRSs and an interpretation issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, the application of the above amendments to HKFRSs and an interpretation in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2.1 HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and HKAS 11 *Construction Contracts* and the related interpretations.

The Group recognised revenue from the following major sources which arise from contracts with customers:

- Sales of wine and cigar
- Sales of golf products
- Sales of watches and jewellery

Information about the Group's performance obligations and accounting policies resulting from application of HKFRS 15 are disclosed in note 3 to the consolidated financial statements.

Summary of effects arising from initial application of HKFRS 15

Based on the assessment by the directors of the Company, the application of HKFRS 15 has had no significant impact on the timing and amounts of revenue recognised in the current year and the accumulated losses at 1 January 2018.

2.2 HKFRS 9 Financial Instruments

In the current year, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (i) the classification and measurement of financial assets and financial liabilities; (ii) expected credit losses ("ECL") for financial assets, and (iii) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated losses and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3 to the consolidated financial statements.

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

		Trade receivables	**Accumulated losses**
	Note	*HK$'000*	*HK$'000*
Closing balance at 31 December 2017 – HKAS 39		100,057	1,617,993
Impairment under ECL model	*12*	(1,686)	1,686
Opening balance at 1 January 2018		98,371	1,619,679

(a) Classification and measurement

The directors of the Company review and assess the Group's financial assets and financial liability as at 1 January 2018 based on the facts and circumstances that existed at that date, and consider that there is no change in classification and measurement on the Group's financial assets and financial liability.

(b) Impairment under ECL model

The Group applies HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. To measure the ECL, trade receivables have been assessed individually with outstanding significant balances, the remaining balances are grouped based on internal credit rating/past due analysis.

ECL for other financial assets at amortised cost, including loan and interest receivables, financial assets included in other receivables, deposits and prepayments and bank balance and cash, are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, additional credit loss allowance of approximately HK$1,686,000 has been recognised against accumulated losses. The additional loss allowance is charged against the respective asset.

All loss allowances for trade receivables as at 31 December 2017 reconciled to the opening loss allowances as at 1 January 2018 are as follows:

	HK$'000
As 31 December 2017 – HKAS 39	–
Amounts remeasured through opening accumulated losses	1,686
Balance at 1 January 2018	1,686

For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on adjusted balances as at 1 January 2018 as disclosed above.

3. OPERATING SEGMENT INFORMATION

The Group's operating segments are determined based on information reported to the chief operating decision maker of the Group (the executive directors of the Company who are also directors of all operating subsidiaries) (the "CODM"), for the purposes of resource allocation and assessment of segment performance focuses on profit (loss), which is a measure of adjusted profit (loss) before tax. Segment performance is evaluated based on reportable segments.

The Group's operating and reportable segments include (i) sales of wine and cigar; (ii) sales of golf products, (iii) sales of watches and jewellery; (iv) provision of money lending service and (v) others.

(a) Segment revenue and results

For the year ended 31 December 2018

The following is an analysis of the Group's revenue and results by operating and reportable segments:

	Wine and cigar *HK$'000*	Golf products *HK$'000*	Watch and jewellery *HK$'000*	Money lending *HK$'000*	Others *HK$'000*	Total *HK$'000*
REVENUE						
External sales	**46,828**	**27,063**	**171,031**	**1,650**	**2,461**	**249,033**
Inter-segment sales*	**–**	**–**	**–**	**–**	**–**	**–**
Segment revenue	**46,828**	**27,063**	**171,031**	**1,650**	**2,461**	**249,033**
RESULTS						
Segment profit	**8,134**	**1,866**	**16,031**	**(1,933)**	**390**	**24,488**
Finance costs						**(43,645)**
Unallocated corporate income						**602**
Unallocated corporate expenses						**(20,022)**
Loss on settlement of contingent consideration payable						**(1,703)**
Impairment loss on other intangible asset						**(5,925)**
Impairment loss on goodwill						**(28,542)**
Loss before tax from continuing operations						**(74,747)**

For the year ended 31 December 2017

	Wine and cigar *HK$'000*	Golf products *HK$'000*	Money lending *HK$'000*	Total *HK$'000*
REVENUE				
External sales	193,591	22,065	150	215,806
Inter-segment sales*	–	–	–	–
Segment revenue	193,591	22,065	150	215,806
RESULTS				
Segment profit	47,717	990	96	48,803
Finance costs				(26,956)
Unallocated corporate income				4,146
Unallocated corporate expenses				(18,352)
Change in fair value of contingent consideration payable				(280)
Profit before tax from continuing operations				7,361

* *Inter-segment sales are charged at cost.*

Excluded from the segment report is the segment on P2P loan facilitation services business which was deconsolidated of during the year and the result of which is set out in note 14.

(b) **Segment assets and liabilities**

For the year ended 31 December 2018

The following is an analysis of the Group's assets and liabilities by reportable and operating segments:

Segment assets

	Wine and cigar *HK$'000*	Golf products *HK$'000*	Money lending *HK$'000*	Watch and jewellery *HK$'000*	Others *HK$'000*	Total *HK$'000*
ASSETS						
Segment assets	79,700	23,942	6,880	184,309	2,161	296,992
Cash and cash equivalent						23,120
Unallocated corporate assets						68,080
Consolidated assets						388,192

Segment liabilities

	Wine and cigar *HK$'000*	Golf products *HK$'000*	Money lending *HK$'000*	Watch and jewellery *HK$'000*	Others *HK$'000*	Total *HK$'000*
LIABILITIES						
Segment liabilities	1,296	2,605	372	2,642	95	7,010
Unallocated corporate liabilities						322,311
Consolidated liabilities						329,321

For the year ended 31 December 2017

Segment assets

	Wine and cigar *HK$'000*	Golf products *HK$'000*	P2P loan facilitation services *HK$'000*	Money lending *HK$'000*	Total *HK$'000*
ASSETS					
Segment assets	165,156	11,510	92,079	10,150	278,895
Cash and cash equivalent					226,150
Unallocated corporate assets					343,856
Consolidated assets					848,901

Segment liabilities

	Wine and cigar *HK$'000*	Golf products *HK$'000*	P2P loan facilitation services *HK$'000*	Money lending *HK$'000*	Total *HK$'000*
LIABILITIES					
Segment liabilities	2,890	1,830	95,164	4	99,888
Unallocated corporate liabilities					352,835
Consolidated liabilities					452,723

(c) Other segment information

For the year ended 31 December 2018

	Wine and cigar HK$'000	Golf products HK$'000	Money lending HK$'000	Watch and jewellery HK$'000	Others HK$'000	Unallocated HK$'000	Total HK$'000
Addition to non-current assets	**157**	**89**	**–**	**3,019**	**11**	**28**	**3,304**
Amortisation of other intangible assets	**–**	**–**	**–**	**–**	**–**	**2,844**	**2,844**
Depreciation of property, plant and equipment	**286**	**250**	**–**	**303**	**4**	**454**	**1,297**

For the year ended 31 December 2017

	Wine and cigar HK$'000	Golf products HK$'000	Money lending HK$'000	Unallocated HK$'000	Total HK$'000
Addition to non-current assets	185	15	–	90	290
Amortisation of other intangible assets	–	–	–	2,844	2,844
Depreciation of property, plant and equipment	522	2	–	631	1,155

(d) Geographical information

The Group's operations are located in Hong Kong and the Mainland China.

Information about the Group's revenue from continuing operations from external customers is presented based on the location of the operations. Information about the Group's non-current assets is presented based on the geographical location of the assets.

	Revenue from external customers		**Non-current assets***	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**249,033**	215,806	**5,332**	3,110
Mainland China	**–**	7,809	**–**	42,269
	249,033	223,615	**5,332**	45,379

* *Non-current assets excluded goodwill, other intangible assets and deposits and prepayments.*

(e) **Information about major customers**

The revenues from continuing operations from the Group's largest customer amounted to less than 10% of the Group's total revenue for the year ended 31 December 2018.

Revenue from continuing operations of approximately HK$27,360,000, representing 12% of the Group's total revenue, was derived from sales to the largest customer of the wine and cigar segment for the year ended 31 December 2017.

4. REVENUE, OTHER INCOME, GAINS AND LOSSES

An analysis of the Group's revenue, other income and gains for the year from continuing operations is as follows:

	2018	2017
	HK$'000	*HK$'000*
		(Re-presented)
Continuing operations:		
Revenue		
Sale of goods	**244,922**	215,656
Interest income	**1,650**	150
Travel agency service income	**2,461**	–
	249,033	215,806
Other income, gains and losses		
Other financing service income	**258**	872
Compensation income	**–**	489
Interest income	**–**	280
Waiver of accrued salaries	**602**	2,642
Sundry income	**86**	102
Loss on settlement of contingent consideration payable	**(1,703)**	–
Change in fair value of contingent consideration payable	**–**	(280)
Impairment of other intangible asset	**(5,925)**	–
Impairment of goodwill	**(28,542)**	–
	(35,224)	4,105

5. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
		(Re-presented)
Continuing operations:		
Interest on convertible bonds	**25,309**	25,932
Interest on promissory notes payables	**18,336**	1,024
	43,645	26,956

6. INCOME TAX EXPENSE

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime is insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Under the Law of the People's Republic of China (the "PRC") on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate applicable to the PRC subsidiaries is 25%.

	2018	2017
	HK$'000	*HK$'000*
		(Re-presented)
Continuing operations:		
Current tax		
Hong Kong Profits Tax	**4,034**	8,318
Deferred taxation	**(1,136)**	(1,366)
	2,898	6,952

Tax charges for the year can be reconciled to the (loss) profit before tax from continuing operations per the consolidated statement of profit or loss as follows:

	2018	2017
	HK$'000	*HK$'000*
		(Re-presented)
(Loss) profit before tax from continuing operations	**(74,747)**	7,361
Tax at the applicable statutory income tax rates	**(12,333)**	1,215
Income not subject to tax	**–**	(517)
Expenses not deductible for tax	**15,351**	6,592
Tax concession	**(120)**	(113)
Others	**–**	(225)
Tax charge for the year	**2,898**	6,952

7. (LOSS) PROFIT FOR THE YEAR FROM CONTINUING OPERATION

The Group's (loss) profit for the year from continuing operations has been arrived at after charging the following items:

	2018	2017
	HK$'000	*HK$'000*
		(Re-presented)
Employee benefit expenses		
(excluding directors' and chief executive's remuneration – note 11):		
Wages and salaries	**12,308**	11,630
Retirement benefits scheme contribution	**514**	500
	12,822	12,130
Cost of inventories sold	**203,781**	150,060
Auditors' remuneration		
– audit services	**950**	950
– non-audit services	**100**	107
Depreciation of property, plant and equipment	**1,297**	1,155
Amortisation of other intangible assets	**2,844**	2,844
Lease payments under operating leases in respect of land and buildings	**7,237**	7,828
Loss on settlement of contingent consideration payable	**1,703**	–
Write off of promissory note interest receivable*	**–**	406
Impairment loss on other intangible asset	**5,925**	–
Impairment loss on goodwill	**28,542**	–
Allowance for credit loss	**110**	–
Allowance for doubtful debts	**3,570**	–

8. DISCONTINUED OPERATION

P2P loan facilitation services

The Company regarded that it has lost control over OPCO on 1 September 2018 and assets and liabilities of the OPCO were deconsolidated from the Group's consolidated financial statements. Accordingly, the Group discontinued its operation in P2P loan facilitation services as one of its principal business activities.

Details of the assets and liabilities being deconsolidated, and the calculation of the loss on such deconsolidation are disclosed in note 14.

The results of OPCO and the (loss) profit for the period from discontinued operations from 1 January 2018 to 31 August 2018, the date of loss of control are presented as below.

	2018	2017
	HK$'000	*HK$'000*
Revenue	**44,090**	7,809
Cost of services	**(4,107)**	(865)
Gross profit	**39,983**	6,944
Other income, gains and losses	**125**	499
Selling and distribution expenses	**(2,818)**	(1,299)
Administrative expenses	**(6,107)**	(3,301)
Finance costs	**(167)**	(28)
Profit before tax	**31,016**	2,815
Income tax expense	**(7,754)**	(879)
Profit for the period	**23,262**	1,936
Loss on deconsolidation of subsidiaries	**(288,084)**	–
(Loss) profit for the period from discontinued operation	**(264,822)**	1,936

Loss for the year from discontinued operation includes the followings:

	2018	2017
	HK$'000	*HK$'000*
Cost of service	**4,107**	865
Depreciation of property, plant and equipment	**2,387**	125
Employee benefit expenses:		
Wages and salaries	**4,004**	1,510
Retirement benefits scheme contribution	**492**	41
	4,496	1,551
Lease payments under operating leases in respect of land and buildings	**21**	12

Net cash outflow arising from deconsolidation

	2018	2017
	HK$'000	*HK$'000*
Net cash outflow from operating activities	**(3,920)**	(36,379)
Net cash outflow used in financing activities	**(604)**	(23)
Effect of foreign exchange rate changes	**(5,353)**	600
Net cash outflow from deconsolidation	**(9,877)**	(35,802)

9. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during 2018, nor has any dividend been proposed since the end of the reporting period (2017: Nil).

10. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share attributable to owners of the Company is based on the following data:

	2018	2017
	HK$'000	*HK$'000*
(Loss) profit for the purpose of basic (loss) earnings per share		
(Loss) profit for the year attributable to owners of the Company	**(342,473)**	2,461
Less: (Loss) profit for the period from discontinued operation	**(264,822)**	1,936
(Loss) profit for the purpose of basic (loss) earnings per share from continuing operations	**(77,651)**	525

	2018	2017
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**3,031,101,766**	2,765,374,434

For the year ended 31 December 2018, basic and diluted loss per share for the discontinued operation is HK$8.74 cents per share (2017: HK0.07 cents earnings per share), based on the loss for the period from the discontinued operation of HK$264,822,000 (2017: profit for the period of HK$594,000) and the denominators detailed above for both basic and diluted loss per share.

Diluted loss per share is calculated by adjusting the number of ordinary shares outstanding due to the effect of all dilutive potential ordinary shares and the Group's loss attributable to owners of the Company.

The Company has dilutive potential ordinary shares attributable to convertible bonds. The calculation of diluted (loss) earnings per share in the both year does not assume the conversion of convertible bonds since they are anti-dilutive for the years ended 31 December 2018 and 2017. Accordingly, the diluted earnings (loss) per share is the same as the basic earnings (loss) per share.

11. OTHER INTANGIBLE ASSET

	Customer Relationship	**Brand name**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
	(Note a)	*(Note b)*	
Cost			
At 1 January 2017	14,220	–	14,220
Acquired on acquisition of subsidiaries	–	41,047	41,047
At 31 December 2017 and 1 January 2018	14,220	41,047	55,267
Deconsolidation of subsidiaries	–	(41,047)	(41,047)
At 31 December 2018	14,220	–	14,220
Accumulated amortisation and impairment			
At 1 January 2017	2,607	–	2,607
Amortised for the year	2,844	–	2,844
At 31 December 2017 and 1 January 2018	5,451	–	5,451
Amortised for the year	2,844	–	2,844
Impairment loss recognised during the year	5,925	–	5,925
At 31 December 2018	14,220	–	14,220
Carrying amount			
At 31 December 2018	–	–	–
At 31 December 2017	8,769	41,047	49,816

Notes:

(a) The customer relationship was acquired as part of the acquisition of Maxpark Group and was recognised at its fair value at the acquisition date. The customer relationship has a finite useful life and is amortised on a straight-line basis over 5 years.

(b) The brand name is acquired as part of the acquisition of Affluent Group and is recognised as its fair value at the acquisition date.

The brand name is considered by the management of the Group as having indefinite useful lives because it is expected to contribute to net cash flows indefinitely. The brand name will not be amortised until its useful life is determined to be finite. Instead they will be tested for impairment annually and whenever there is an indication that they may be impaired.

12. TRADE RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables	**129,027**	100,057
Less: Allowance for credit loss	**(1,796)**	–
	127,231	100,057

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to approximately HK$127,231,000 and HK$100,057,000 respectively.

Aging analysis of the Group's trade receivables net of allowance for credit loss as at the end of the reporting period, based on the invoice date is as follows:

	2018	2017
	HK$'000	*HK$'000*
Within 30 days	**58,486**	24,099
31 to 60 days	**5,392**	16,600
61 to 90 days	**896**	7,407
91 to 180 days	**23,329**	30,380
181 to 360 days	**38,630**	21,284
Over 360 days	**498**	287
	127,231	100,057

The Group normally grants a credit period of 30 to 180 days to its customers.

Before accepting new customers, the Group assesses the potential customer's credit quality by investigating their historical credit record and defines credit limits by customers on individual basis. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Recoverability and credit limit of the existing customers and overdue balances are reviewed by the senior management of the Group on regular basis. In view of the aforementioned and the fact that the Group's trade receivables relate to large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or credit enhancements over its trade receivable balances.

As at 31 December 2018, included in trade receivables were an aggregate amount of approximately HK$39,144,000 which were past due and regarded as having low default risk by the management of the Company based on regular repayment history in the ECL assessment.

Subsequent to the reporting date, trade receivables of approximately HK$119,443,000 had been settled.

Ageing of trade receivables which are past due but not impaired is as follows:

	2018	2017
	HK$'000	*HK$'000*
Within 30 days	**33,902**	15,831
31 to 60 days	**2,086**	6,853
61 to 90 days	**1,548**	6,138
91 to 180 days	**1,061**	14,675
181 to 360 days	**547**	1,428
Over 360 days	**–**	286
	39,144	45,211

The movements in allowance for expected credit losses during the years are set out below:

	2018	2017
	HK$'000	*HK$'000*
Balance at beginning of the year	**–**	–
Impact on initial application of HKFRS 9	**1,686**	–
	1,686	–
Increase in allowance recognised in the consolidated statement of profit or loss	**110**	–
Balance at end of the year	**1,796**	–

Included in the allowance for expected credit losses are individually impaired trade debtors with an aggregate balance of approximately HK$1,796,000 (2018: HK$Nil). For overdue debts, the Group assessed the customers for potential impairment losses based on the past default experience, payment history of the customers and subsequent settlement.

13. TRADE PAYABLES

The average credit period on purchase of goods is 30 to 60 days. The following is an ageing analysis of trade payables based on the invoice date.

	2018	2017
	HK$'000	*HK$'000*
Within 30 days	**862**	609
31 to 60 days	**240**	200
61 to 90 days	**–**	50
91 to 180 days	**110**	12
Over 180 days	**–**	2
	1,212	873

14. DECONSOLIDATION OF SUBSIDIARIES

Due to the obstructions faced by the Company in exercising control over, and gathering information and documents from, the Deconsolidated subsidiaries, the Company regard that it has lost control over the Deconsolidated subsidiaries. Under these circumstances, the directors have not been able to obtain complete documentary information to satisfy themselves regarding the accounting treatments and carrying values in respect of those transactions for the year ended 31 December 2018. As such, the assets and liabilities of the Deconsolidated subsidiaries have not been included in the consolidated financial statements of the Group since 1 September 2018. The resulting loss on de-consolidation of approximately HK$288,084,000, which is determined based on the net asset value of approximately HK$283,436,000 and foreign currency translation reserve of approximately HK$4,648,000 of the Deconsolidated subsidiaries as at 1 January 2018 have been recognised in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018.

	HK$'000
Property, plant and equipment	39,883
Goodwill	161,961
Deferred tax assets	239
Other intangible asset – brand name	41,047
Other receivables, deposits and prepayments	169,724
Cash and cash equivalents	9,877
Accruals, other payables and deposits received	(75,180)
Tax payable	(6,519)
Bank borrowings	(4,559)
Deferred tax liabilities	(10,262)
Contingent consideration payable	(42,775)
Net assets deconsolidated	283,436
Release of foreign currency translation reserve	4,648
Loss on deconsolidation of subsidiaries, net	288,084

15. EVENTS AFTER THE REPORTING PERIOD

On 30 October 2019, the Company and the holder of CB IX ("CB Holder"), entered into a deed of novation pursuant to which the CB Holder agreed to repay the Group's outstanding trade receivables amounting to approximately HK$56,327,000 on behalf of the Group's trade debtors by way of set-off against the CB IX. The CB Holder agreed to accept the sum of approximately HK$56,327,000 in full as final settlement of the outstanding of CB IX. As at the date of this announcement, the Company has confirmed the trade receivables amounting to approximately HK$56,327,000 have been fully settled and the CB Holder confirmed that the amount of CB IX has been fully settled and discharged.

On the same date, the CB Holder has signed a guarantee document to the Company pursuant to which the CB Holder unconditionally and irrevocably guaranteed to the Company the due and punctual payment and discharge of trade receivable amounting to approximately HK$24,171,000 due by the certain trade debtors in accordance with agreed repayment schedule.

EXTRACT FROM INDEPENDENT AUDITOR'S REPORT

Basis for Disclaimer of Opinion

De-consolidation of subsidiaries

As disclosed in notes 3, 10 and 35 to the consolidated financial statements, the management of the Company became aware of the followings matters in relation to our audit of the consolidated financial statements for the year ended 31 December 2018.

(i) On 4 May 2018, Mr. Fei Xianping ("Fei Xianping") as a lender, and Koudai Network Services Company Limited (口貸網絡服務股份有限公司) ("OPCO"), a wholly-owned subsidiary of the Company established in Chengdu, PRC, as the borrower, entered into a loan agreement ("Fei Loan Agreement") pursuant to which Fei Xianping agreed to lend OPCO RMB20,000,000, with a term from 4 May 2018 to 3 November 2018 and at loan interest rate of 2% per month ("Fei Debt"). On 19 July 2018, Fei Xianping and OPCO entered into a supplemental agreement where the borrowing period on the Fei Loan Agreement signed on 4 May 2018 was changed from 6 months to 3 months, i.e. the expiry date became 3 August 2018. As OPCO did not comply with the supplemental agreement to repay the Fei Debt on 3 August 2018, Fei Xianping has taken legal action against OPCO at the Sichuan Province Chengdu High-tech Industrial Development Zone People's Court (四川省成都高新技術產業開發區人民法院) (the "Chengdu Court") for recovery of the Fei Debt.

(ii) On 30 May 2018, Ms. Wei Rongrong ("Wei Rongrong"), a legal representative and major shareholder of Sichuan Lijuren Financial Service Outsourcing Co. Ltd. ("Lijuren"), as a lender and OPCO, as the borrower, entered into a loan agreement ("Wei Loan Agreement") to formally ratify loans previously made available to OPCO. Wei Rongrong and OPCO had long-term and familiar cooperative relationship and therefore, no formal agreement had been signed for the borrowings previously obtained from Wei Rongrong and confirmation of the borrowings were based on the bank transaction advices or bank records. Major provisions of the Wei Loan Agreement included: (i) up to the date of signing the Wei Loan Agreement, Wei Rongrong had lent in aggregate RMB72,000,000 to OPCO during the period from 7 December 2015 to 28 March 2018 in a total of 19 loans (the "Loans"); (ii) up to the date of signing the Wei Loan Agreement, OPCO had already repaid RMB97,000,000 to Wei Rongrong, including two repayments of RMB4,850,000 on 25 March 2016; (iii) the Loans bear interest at the rate of 4.5% per month from the actual lending date to the date of signing of the Wei Loan Agreement; and (iv) both Wei Rongrong and OPCO confirmed that the outstanding amount of principal and interest at the date when the Wei Loan Agreement was signed were RMB62,300,000 and RMB49,986,246 respectively (in aggregate the "Wei Debt").

On 1 June 2018, Wei Rongrong and Lijuren signed an assignment of debt right pursuant to which Wei Rongrong assigned part of her rights under the Wei Loan Agreement to Lijuren ("Debt Assignment"). Out of the outstanding principal and interest, Wei Rongrong assigned to Lijuren the principal amount of RMB21,000,000 and the corresponding interest amount of RMB7,357,902 (the "Lijuren Debt").

(iii) On 26 August 2018, Lijuren issued a notice of the Debt Assignment to OPCO, which had been confirmed and countersigned by Mr. Wen Mou ("Mr. Wen"), one of the directors of OPCO. On 27 August 2018, Lijuren issued a writ at the People's Court of Nanbu County Sichuan Province (四川省南部縣人民法院) (the "Sichuan Court") for pre-litigation property preservation and requested that all properties and bank deposits of OPCO be frozen up to an amount of RMB28,357,902. Subsequently, the Sichuan Court issued a civil mediation letter expressing that after mediation, OPCO and Lijuren reached a settlement agreement and requested the Sichuan Court to confirm that the loan principal amount between OPCO and Lijuren was RMB21,000,000 and that the related interest on the loan was RMB7,617,908 up to 29 August 2018. In addition, overdue interest on the outstanding principal amount shall be charged at 24% per annum until full repayment.

(iv) On 22 September 2018, OPCO entered into an agreement with an independent third party to sell two properties located in the PRC held by OPCO at an aggregate consideration of RMB8,500,000 for the purposes of repayment of outstanding debts, including mortgage loan, outstanding debts and general administrative expenses, owed by OPCO.

(v) In view of the above events, on 24 January 2019, the Company set up an investigation committee (the "Investigation Committee") and appointed a professional firm as independent investigator to investigate into the financial, operational and other affairs of OPCO, in particular the matters stated in points (i) to (iv) (the "Investigation"). The Investigation had been completed and reported to the Investigation Committee. It was found that the Chengdu High-tech Zone Public Security Bureau Economic Investigation Brigade (成都高新區公安分局經濟偵查大隊) (the "Economic Investigation Brigade") had launched a field investigation on OPCO and all financial documents and records of OPCO had been seized by the Economic Investigation Brigade for their investigation and relevant senior management personnel of OPCO could not be contacted by the Investigator appointed by the Company. In addition, it was found that OPCO was suspected of illegal absorption of public deposits in the PRC and the Chengdu High-tech Public Security Bureau Industrial Development Zone Branch (成都市公安局高新技術產業開發區分局) had filed the case for investigation and seized the assets involved in the case according to the law.

Due to the limitations of the Investigation, the Board had agreed with the recommendations of the Investigation Committee and had not pursued any further investigation into the affairs of OPCO until any material change in circumstances such as completion of the criminal investigation and/or prosecution procedures by the relevant PRC government authorities, release of the key management of OPCO and/or release of the seized financial documents of OPCO.

Due to the situation described in point (v) above, the Group faced obstructions in exercising control over, and gathering information and documents of OPCO and its holding company named Chengdu Xingfu Koudai Enterprise Management Consulting Company Limited（成都幸福口袋企業管理諮詢有限公司）, a wholly-owned subsidiary of the Group (collectively, the "Deconsolidated subsidiaries"). The Group regards that it has lost control over the entire operations of the Deconsolidated subsidiaries and the directors of the Company have resolved to exclude the financial position, results and cash flows of the Deconsolidated Subsidiaries as at and for the year ended 31 December 2018 from the Group's consolidated financial statements. The Deconsolidated subsidiaries have been deconsolidated with effect from 1 September 2018 in the consolidated financial statements of the Group, the date when the Group considered that it had effectively lost control of the Deconsolidated Subsidiaries. The resulting loss arising from the deconsolidation of approximately HK$288,084,000 has been recognised in the consolidated statement of profit or loss for the year ended 31 December 2018.

Under Hong Kong Financial Reporting Standard 10 "Consolidated Financial Statements", the carrying amounts of the assets and liabilities of the Deconsolidated subsidiaries should be derecognised from the consolidated financial statements of the Group at the date when control over the Deconsolidated subsidiaries was lost. Since we were unable to gain access to the complete books and records and management personnel of the Deconsolidated subsidiaries, we were unable to obtain sufficient appropriate audit evidence and explanation to assess the appropriateness of the accounting treatment and amounts adopted by the Group of treating the Deconsolidated subsidiaries as subsidiaries of the Group on 1 September 2018. We were also unable to obtain sufficient appropriate audit evidence and explanation to satisfy ourselves as to the date when the Group lost control over the Deconsolidated subsidiaries. There were no alternative audit procedures that we could perform to satisfy ourselves as to whether the resulting loss arising from the deconsolidation of subsidiaries of approximately HK$288,084,000 recorded in the consolidated statement of profit or loss are free from material misstatement. Any adjustment that would be required may have a consequential significant effect on the net assets of the Group and loss and cash flows of the Group for the year ended 31 December 2018, and the related disclosures thereof in the consolidated financial statements.

In addition, due to the substantial financial documents and records of OPCO had been seized by the Economic Investigation Brigade and certain directors and senior management personnel are said to have been under arrested or were missing, we could not performed all necessary audit procedures on the results from discontinued operations. We have not been able to obtain sufficient appropriate audit evidence and explanations as to ascertain the background and reasons in relation to above transactions by OPCO. There were no alternative audit procedures that we could perform to satisfy ourselves as to whether the profit arising from the discontinued operation of approximately HK$23,262,000 recorded in the consolidated statement of profit or loss are free from material misstatement. Any adjustment that would be required may have a consequential significant effect on the net assets of the Group and loss and cash flows of the Group for the year ended 31 December 2018, and the related disclosures thereof in the consolidated financial statements.

BUSINESS REVIEW AND OUTLOOK

Wine, Cigar and Golf products retail and trading business and trading of internationally renowned watch brands and luxury and prestigious jewelleries in Hong Kong

Maxpark Enterprises Limited ("Maxpark") and its subsidiaries (collectively "Maxpark Group") engages in the retail and trading business of wine, cigar and golf products and trading of internationally renowned watch brands and luxury and prestigious jewelleries through 6 direct subsidiaries all of which are incorporated in Hong Kong, namely Queensway Wine International Limited, Queensway Wine (Hong Kong) Limited, Queensway Golf International Limited, Mass Fortune (Asia) Limited and Kasco (Hong Kong) Limited ("HK Subsidiaries"), Queensway Watch & Jewellery Limited ("Queensway Watch"). Kasco (Hong Kong) Limited is a direct subsidiary of Maxpark and held as to 90.5% by Maxpark and 9.5% by an Independent Third Party.

Wine and cigar business

I Products

Maxpark Group sells a wide variety of wine products including red wine, white wine, champagne, whisky and other liquors and spirits, with particular focus on premium red wine produced from the leading wineries in France, namely Château Lafite Rothschild in Pauillac, Château Latour in Pauillac, Château Margaux in Margaux, Château Haut-Brion in Pessac-Léognan and Château Mouton Rothschild in Pauillac. The origin of the wine are mainly from France, the United States and Italy. Maxpark Group also sells cigar and tobacco which are considered to be complementary to the needs of the customers for the wine products.

II Suppliers

Maxpark Group sources its wine products from both overseas and local wine distributors and merchants. Overseas suppliers include wine distributors and merchants for leading wineries in France, United Kingdom, United States, Italy, Chile and Australia. Maxpark Group obtains its supplies for cigar and tobacco products from local distributors.

III Customers

The customers for Maxpark Group's wine products include corporations engaging in entertainment, travel, restaurants and luxury products businesses and high net-worth individuals.

IV Storage

Maxpark Group's wine inventory are stored either at its retail shop or at external warehouses which are equipped with automatic air-conditioning system to control the humidity and temperature of the storage environment.

Golf business

I Products

Maxpark Group sells a wide range of golf related products including golf club, ball, shoes, glove, clothing and other accessories of various reputable brands from different countries.

II Suppliers

Maxpark Group mainly sources its golf products from local distributors with the exception of "Kasco" brand products which are sourced directly from Kasco's Japan and Taiwan office. Maxpark Group is the sole distributor in Hong Kong of "Kasco" brand golf products. "Kasco" is a well-known Japanese golf brand with over 50 years' history. Maxpark Group will also source products from overseas suppliers according to customers' needs.

III Customers

The customers for Maxpark Group's golf products include individual retail customers, local corporate customers such as banks and large corporations. Wholesale customers are mainly local golf clubs and golf retail shops.

Wine, Cigar and Golf products retail stores

Maxpark Group currently operates one shop for retail of wine products, cigar and tobacco and one shop for retail of golf products. The two shops are leased properties located next to each other at Shun Tak Centre, Sheung Wan, Hong Kong and occupy a total gross floor area of approximately 4,100 square feet.

Watch & Jewelleries business

I Products

Queensway Watch will focus on high-grade watch products. Tourbillion, Luxury watch or Miniature Painting watch be the initial type of products to source by Queensway Watch.

II Supplier

Queensway Watch will sources the watch products mainly from the manufacturer directly in United States and Switzerland. The suppliers including Richard Mille, Audemars Piguet and Bovet 1822 which are the large and well-known luxury watch producer in the market.

III Customers

The customers for Queensway Watch mainly include high net-worth individuals.

Money Lending Business in Hong Kong

China Fortune Investments Finance Limited ("CFI Finance") is an indirect subsidiary of the Group, which was incorporated in November 2016 in Hong Kong. A money lender license was granted to CFI Finance in June 2017 in accordance with the Money Lenders Ordinance to carry on money lending business. CFI Finance provides customers with a wide range of loan products and services to meet their financial needs. CFI Finance provides secured loans to customers including individuals and corporations. The money lender license was expired in June 2019.

P2P online credit platform in China

Affluent Grand Limited ("Affluent") and its subsidiaries (collectively "Affluent Group") engages in the P2P online lending services in the PRC through its indirect subsidiary 口貸網絡服務股份有限公司 ("OPCO"). OPCO provides matching services to borrowers and private lenders ("P2P business").

According to the Company's announcements dated 5 October 2018, 18 October 2018, 16 November 2018, 21 December 2018, 24 January 2019, 8 February 2019, 8 May 2019, and 2 August 2019 in relation to the Group's operation of the P2P online platform and loan facilitation services in China, the Company has set up an investigation committee to investigate into the financial, operational and other affairs of OPCO. An independent investigator was appointed by the investigation committee on 24 January 2019. For details key findings of the independent investigation, please refer to the Company's announcement dated 30 October 2019. Due to the uncertainty over the prospect in the P2P business, the board determined to discontinued all the Group's P2P business operations since 1 September 2018.

Group's other business

Apart from the above mentioned, the Group had no other significant acquisition or disposal of investments during the year ended 31 December 2018.

Furthermore, the Group continues to explore any other new potential investment opportunities to improve the Group's standard performance and returns to its shareholders.

FINANCIAL REVIEW

Revenue and gross profit

For the year ended 31 December 2018, the consolidated revenue of the Group from continuing operations was approximately HK$249.03 million and HK$215.81 million in 2017. Gross profit in 2018 is approximately HK$45.25 million (2017: HK$65.75 million) and gross profit margin of approximately 18% (2017: 30%).

The revenue approximately HK$73.89 million was generated from the retail and wholesales of wine, cigar and golf products, HK$171.03 was generated from the retail of watch and jewelleries products, HK$1.65 million was generated from loan interest income and HK$2.46 million was generated from travel agency income.

Other income

The other income from continuing operations was approximately HK$946,000 for the year ended 31 December 2018 (2017: HK$4.39 million). Other income mainly included waiver of accrued salaries and other financing service income.

Selling and distribution expenses

Selling and distribution expenses from continuing operations was approximately HK$6.76 million for the year ended 31 December 2018 (2017: HK$6.09 million). Selling and distribution expenses mainly included rental expenses, salaries and wages and building management fees.

Administrative expenses

Administrative expenses from continuing operations was approximately HK$34.37 million for the year ended 31 December 2018 (2017: HK$29.44 million). Administrative expenses mainly included rental expenses, legal and professional fees, salaries and wages and amortisation of intangible assets.

Finance costs

Finance costs from continuing operations increased from approximately HK$26.96 million for the year ended 31 December 2017 to approximately HK$43.65 million for the year ended 31 December 2018. The finance costs were mainly consisted of imputed interest on convertible bond and interest on promissory note. The increase of finance costs was mainly attributed to the interests on promissory notes.

Results of the Group's operations

Loss attributable to shareholders of the Company was approximately HK$342.47 million for the year ended 31 December 2018, compared with the profits approximately HK$2.46 million for the year ended 31 December 2017. The change was mainly attributed to the lost of control in subsidiaries in Chengdu resulting in the deconsolidation on the subsidiaries.

Dividends

The directors do not recommend the payment of a dividend for the year ended 31 December 2018 (2017: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

The cash and cash equivalents as at 31 December 2017 and 2018 amounted to approximately HK$226.15 million and HK$23.12 million respectively. The significant decrease in cash and cash equivalents in 2018 was mainly attributed to the deconsolidation of Chengdu subsidiaries. The major capital resources of the Group included cash generated from operating activities and the proceeds raised by the Group in Hong Kong.

To manage liquidity risk, the Group monitors and maintains a level of cash and cash equivalents considered adequate by its management to finance its operations and mitigate the effects of fluctuations in cash flow. The Group's management also monitors its net current assets/liabilities and the utilisation of borrowings to ensure efficient use of the available banking facilities and compliance with loan covenants.

GEARING RATIO

As at 31 December 2018, the Group's gearing ratio (total liabilities by total assets) is approximately 85% (31 December 2017: approximately 53%). It is anticipated that the Group should have adequate financial resources to meet its ongoing operating and development requirements.

CAPITAL STRUCTURE

In January 2014, the Group issued convertible bonds with principal amount of HK$312 million (the "CB I"). For the CB I, approximately HK$257.40 million was converted in previous years. As at 31 December 2018, principal amount of HK$54.60 million CB I was outstanding.

In September 2017, the Group issued convertible bonds with principal amount of HK$69 million (the "CB VII") as repayment of the convertible bonds aggregate outstanding amount of HK$69 million issued on 3 August 2016 and 24 August 2016 respectively. The CB VII do not bear any interest. The effective interest rate of liability is 19.66% per annum. The maturity dates is on the first anniversary of the date of issue of the CB VII. The CB VII was fully redeemed during the year.

In November 2017, the Group issued convertible bonds with principal amount of HK$80 million (the "CB VIII") as part of the consideration for acquisition of Affluent Grand Limited. The CB VIII do not bear any interest. The effective interest rate of liability is 18.72% per annum. The maturity dates is on the fifth anniversary of the date of issue of the CB VIII. As at 31 December 2018, principal amount of HK$80 million CB VIII was outstanding.

In April 2018, the Group issued convertible bonds with an aggregate principal amount of HK$100 million due in 2023 with conversion price of HK$0.42 per share (the "CB IX") as final consideration to acquire 100% equity interest in Maxpark Enterprises Limited. The CB IX does not bear any interest. The effective interest rate of the liability component is 19.15% per annum. The maturity date is on the fifth anniversary of the date of issue of the CB IX. As at 31 December 2018, the CB IX with an aggregate principal amount of HK$100 million remain outstanding.

CHARGE ON GROUP ASSETS

As at 31 December 2018, the carrying amount of inventories of approximately HK$120,455,000 have been secured for promissory notes with carrying amount of HK$79,350,000 as at 31 December 2018. Save as disclosed above, no other Group's assets were charged or pledged to secure any loans or borrowings.

FOREIGN EXCHANGE EXPOSURE

Since the Group's sales, purchases and loans were substantially denominated in either Renminbi or Hong Kong Dollar, the Directors of the Company consider that the potential foreign exchange exposure of the Group is limited.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any material contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Group employed a workforce with head count of 45. Employee benefit expenses, including directors' emoluments, amounted to approximately HK$17.09 million. The Group's remuneration policy has been in line with the prevailing market practice including discretionary bonus and remunerates its employees based on their performance and contribution. Other benefits include contributions to retirement benefits scheme and medical insurance.

ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

Save as disclosed above, the Group had no other acquisitions or disposals of subsidiaries and affiliated companies for the year ended 31 December 2018.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed above, the Group did not have any future plans for material investments or capital assets as at 31 December 2018.

SIGNIFICANT INVESTMENT

Save as disclosed above, the Group did not have any significant investment as at 31 December 2018.

ACTIONS TO ADDRESS THE AUDIT QUALIFICATION

As disclosed in this announcement, the auditor of the Company, HLM CPA Limited, issued a disclaimer of opinion on the consolidated financial statements of the Group for the year ended 31 December 2018 in relation to de-consolidation of subsidiaries. The Company has discussed with the auditors of the Company for actions to be taken (if any) with the aim to removing all audit qualifications for the next year ending 31 December 2019. During the year 2019, the Company completed the investigation on the operations in the deconsolidated subsidiaries and found that all financial documents and records of deconsolidated subsidiaries had been seized by the Economic Investigation Brigade for the investigation and relevant senior management personnel of deconsolidated subsidiaries could not be contacted. In the absence of any material change in circumstances in relation to the criminal investigation of the deconsolidated subsidiaries, the Company expects that the deconsolidated subsidiaries will remain to be deconsolidated for the year ending 31 December 2019 and as such, the auditor of the Company are in agreement that no further action is required to be made by the Company for removal of the audit qualification on de-consolidation of subsidiaries for the year ending 31 December 2019.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to the establishment of good corporate governance practices and procedures. The Corporate governance principles of the Company emphasis a quality board, sound internal control, and transparency and accountability to all shareholders. The Company has applied the principles and complied with all code provisions and, where applicable, the recommended best practices of the Corporate Governance Code as set out in Appendix 15 of the GEM Listing Rules ("CG Code") throughout the year ended 31 December 2018, except that the roles of chairman and chief executive officer are performed by the same individual which is a deviation from code provision A.2.1 of the Code. The Board considers that the current management structure ensures consistent leadership and optimal efficiency for operation of the Company. The balance of power and authority between the Board and management will not be compromised.

AUDIT COMMITTEE

The Company's Audit Committee was formed on 13 July 2000 and is currently composed of three Independent Non-executive Directors of the Company, namely Mr. Lee Chi Hwa Joshua, Mr. Xu Jingan and Mr. Chang Jun. Mr. Lee Chi Hwa Joshua is the Chairman of the Audit Committee. The primary duties of the Audit Committee are (a) to review the Group's annual reports, financial statements, interim reports and quarterly reports, (b) to provide advice and comments thereon to the Board and (c) to review and supervise the financial reporting process and internal control procedures of the Group.

In 2018, the Audit Committee held 3 meetings. The Audit Committee has carefully reviewed the Company's quarterly, half-yearly and annual results and its system of internal control and has made suggestions to improve them. The Audit Committee also carried out and discharged its duties set out in the CG. In the course of doing so, the Audit Committee has met the Company's management, qualified accountant and external auditors in 2018.

Scope of Work of HLM CPA Limited

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in this announcement have been agreed by the Group's auditor, HLM CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by HLM CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by HLM CPA Limited on this announcement.

On behalf of the Board
CHINA FORTUNE INVESTMENTS (HOLDING) LIMITED
Cheng Chun Tak
Chairman

Hong Kong, 1 November 2019

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Cheng Chun Tak (Chairman), Mr. Stephen William Frostick and Ms. Li Ka Ki, one non-executive Director, namely Mr. Huang Shenglan and three independent non-executive Directors, namely Mr. Chang Jun, Mr. Xu Jingan and Mr. Lee Chi Hwa Joshua.

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