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VESTATE GROUP HOLDINGS LIMITED

國投集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1386)

ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2019

The board of directors (the “**Board**”) of Vestate Group Holdings Limited (the “**Company**”) presents the audited consolidated annual results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 March 2019 (the “**Year**”), together with comparative figures for the year ended 31 March 2018, as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2019

Continuing operations	<i>Note</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Revenue	3	110,349	346,157
Cost of sales	4	(70,444)	(171,069)
Gross profit		39,905	175,088
Selling and distribution costs	4	(115,329)	(251,757)
Administrative expenses	4	(73,048)	(103,728)
Other gains or losses	5	(33,676)	30,552
Other income	6	3,375	4,000
Operating loss		(178,773)	(145,845)
Finance income	7	12,495	9,701
Finance costs	7	(77,508)	(69,502)
Finance costs, net	7	(65,013)	(59,801)
Share of losses of associates		(2,300)	(1,634)
Loss before income tax		(246,086)	(207,280)
Income tax credit	8	–	586
Loss for the year from continuing operations		(246,086)	(206,694)
Discontinued operations			
Loss for the year from discontinued operations	9	(11,300)	(2,689)
Loss for the year		(257,386)	(209,383)

	<i>Note</i>	2019 HK\$'000	2018 HK\$'000
Attributable to:			
Equity holders of the Company			
From continuing operations		(245,361)	(206,076)
From discontinued operations		(11,236)	(2,600)
		<u>(256,597)</u>	<u>(208,676)</u>
Loss for the year attributable to equity holders of the Company		(256,597)	(208,676)
Non-controlling interests			
From continuing operations		(725)	(618)
From discontinued operations		(64)	(89)
		<u>(789)</u>	<u>(707)</u>
Loss for the year attributable to non-controlling interests		(789)	(707)
Loss for the year attributable to:			
Equity holders of the Company		(256,597)	(208,676)
Non-controlling interests		(789)	(707)
		<u>(257,386)</u>	<u>(209,383)</u>
Loss per share for loss from continuing and discontinued operations attributable to equity holders of the Company (expressed in HK cents per share)			
— Basic	<i>10</i>	(35.83)	(29.14)
— Diluted	<i>10</i>	(35.83)	(29.14)
		<u>(35.83)</u>	<u>(29.14)</u>
Loss per share for loss from continuing operations attributable to equity holders of the Company (expressed in HK cents per share)			
— Basic	<i>10</i>	(34.26)	(28.77)
— Diluted	<i>10</i>	(34.26)	(28.77)
		<u>(34.26)</u>	<u>(28.77)</u>
Loss per share for loss from discontinued operations attributable to equity holders of the Company (expressed in HK cents per share)			
— Basic	<i>10</i>	(1.57)	(0.37)
— Diluted	<i>10</i>	(1.57)	(0.37)
		<u>(1.57)</u>	<u>(0.37)</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2019

	2019 HK\$'000	2018 HK\$'000
Loss for the year	<u>(257,386)</u>	<u>(209,383)</u>
Other comprehensive (expense)/income		
Items that have been reclassified or may be subsequently reclassified to profit or loss		
Currency translation differences	<u>(8,498)</u>	<u>14,729</u>
Total items that have been reclassified or may be subsequently reclassified to profit or loss	<u>(8,498)</u>	<u>14,729</u>
Total comprehensive expense for the year	<u>(265,884)</u>	<u>(194,654)</u>
Attributable to:		
Equity holders of the Company		
From continuing operations	<u>(254,051)</u>	<u>(191,137)</u>
From discontinued operations	<u>(11,273)</u>	<u>(2,509)</u>
Total comprehensive expense for the year attributable to equity holders of the Company	<u>(265,324)</u>	<u>(193,646)</u>
Non-controlling interests		
From continuing operations	<u>(489)</u>	<u>(933)</u>
From discontinued operations	<u>(71)</u>	<u>(75)</u>
Total comprehensive expense for the year attributable to non-controlling interests	<u>(560)</u>	<u>(1,008)</u>
Total comprehensive expense for the year attributable to:		
Entity holders of the Company	<u>(265,324)</u>	<u>(193,646)</u>
Non-controlling interests	<u>(560)</u>	<u>(1,008)</u>
	<u>(265,884)</u>	<u>(194,654)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2019

	<i>Note</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment		3,389	7,958
Intangible assets		373	804
Investment in a joint venture		510	510
Interests in associates		12,962	6,530
Available-for-sale financial assets		–	6,248
Long-term deposits and prepayments		1,155	11,363
		<u>18,389</u>	<u>33,413</u>
Current assets			
Inventories		2,509	97,010
Trade receivables	<i>12</i>	4,390	38,323
Deposits, prepayments and other receivables		114,612	136,014
Loan receivables		135,846	130,873
Amounts due from associates		6,469	3,662
Cash and cash equivalents		1,763	53,514
		<u>265,589</u>	<u>459,396</u>
Non-current assets classified as held for sale	<i>13</i>	<u>245,111</u>	<u>241,830</u>
		<u>510,700</u>	<u>701,226</u>
Total assets		<u>529,089</u>	<u>734,639</u>
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		71,619	71,619
Share premium		673,503	673,503
Other reserve		114,486	120,451
Accumulated losses		(1,086,568)	(827,603)
		<u>(226,960)</u>	<u>37,970</u>
Non-controlling interests		<u>(1,327)</u>	<u>(767)</u>
Total equity		<u>(228,287)</u>	<u>37,203</u>

	<i>Note</i>	2019 HK\$'000	2018 HK\$'000
LIABILITIES			
Current liabilities			
Trade payables	<i>14</i>	62,872	102,737
Accruals and other payables		54,242	36,577
Amount due to an associate		2,445	–
Borrowings		–	5,130
Obligation under finance lease		97	97
Convertible bonds		141,522	17,550
Corporate bond		400,323	–
Current tax liabilities		1,006	1,077
		<hr/>	<hr/>
		662,507	163,168
Liabilities directly associated with non-current assets classified as assets held for sale	<i>13</i>	66,477	52,408
		<hr/>	<hr/>
		728,984	215,576
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Non-current liabilities			
Obligation under finance lease		32	129
Convertible bonds		28,360	137,053
Corporate bond		–	344,678
		<hr/>	<hr/>
		28,392	481,860
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Net current (liabilities)/assets		(218,284)	485,650
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Total liabilities		757,376	697,436
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Total equity and liabilities		529,089	734,639
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Vestate Group Holdings Limited (the “**Company**”) and its subsidiaries (collectively, the “**Group**”) are principally engaged in the retailing of footwear in Hong Kong, the People’s Republic of China (the “**PRC**”) and Taiwan, and e-Commerce and e-Payment business.

The Company was incorporated in the Cayman Islands on 10 November 2006 as an exempted company with limited liability under the Companies Law (Cap. 22, Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, the Cayman Islands. The headquarter and principal place of business in Hong Kong has been changed from Suite 708, 7th Floor, Champion Tower, 3 Garden Road, Central, Hong Kong to Unit E 22/F, Tower A, Billion Centre, 1 Wang Kwong Road, Kowloon bay, Kowloon since 4 January 2019.

In the opinion of the directors of the Company (the “**Directors**”), the Company’s immediate and ultimate holding company is China Consume Elderly Care Holdings Limited, a company incorporated in the Republic of Seychelles.

The Company’s shares are listed on The Stock Exchange of Hong Kong Limited (“**Stock Exchange**”).

These consolidated financial statements are presented in thousands of units of Hong Kong dollar (“**HK\$**”), unless otherwise stated, which is the same as the functional currency of the Company. These consolidated financial statements have been approved for issue by the Board on 28 June 2019.

2 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards (“**HKFRS**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Companies Ordinance Cap. 622. They have been prepared under the historical cost convention, as modified by certain financial liabilities (including derivative instruments) at fair value through profit or loss and assets held for sale, which are carried at the lower of carrying amount and fair value less costs to sell.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

2.1 Going concern basis

The Group incurred a net loss of approximately HK\$257,386,000 for the year ended 31 March 2019 and had net current liabilities of approximately HK\$218,284,000 as at 31 March 2019.

All the above events and conditions indicate the existence of a material uncertainty which may cast significant doubt about the ability of the Group to continue as a going concern, and therefore, that the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

In view of these circumstances, the Directors have given careful consideration to the future liquidity of the Group, and its available sources of financing in assessing whether the Group has sufficient financial resources to continue as a going concern. The Directors have reviewed the Group's cash flow projections prepared by management covering a period of twelve months from 31 March 2019. In order to improve the Group's financial position and alleviate the liquidity pressure, the Directors have been implementing various measures as follows:

- (a) On 13 June 2019, an independent third party granted a stand-by revolving loan facilities of up to RMB200,000,000 to the Group, which is available to draw down on or before 30 June 2020. The loan facility is guaranteed by Mr. ZHU Xiaojun, the Chairman of the Company, and bears interest at 18% per annum. The Directors believe that this loan facility is available for draw down as additional working capital of the Group, as and when needed.
- (b) On 13 June 2019, China Investment S.p.A., a company with 70% interest owned by Ms. CAI Jiaying, the Director of the Company granted a stand-by revolving loan facilities of up to Euro 20,000,000 to the Group, which is available to draw down on or before 30 June 2021. The loan facility bears interest at 9% per annum.
- (c) The Group is implementing various measures, such as optimising its overall sales network by relocating certain outlets, and controlling the costing to improve the profit margin and operating cashflows of its footwear retailing business.
- (d) The Group will also continue to seek for other alternative financing and bank borrowings to finance the settlement of its existing financial obligations and future operating and capital expenditures.

The Directors are of the opinion that, taking into account the above-mentioned plans and measures, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from 31 March 2019. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

Should the Group be unable to operate as a going concern, adjustments would have to be made to reduce the carrying values of the Group's assets to their net realisable amounts, to provide for further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effect of these adjustments has not been reflected in the consolidated financial statements.

2.2 New and amended standards adopted by the Group

The Group has applied the following new and amendments to HKFRSs 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 new and amendments to HKFRSs 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.

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 April 2018. Any difference at the date of initial application is recognised in the opening retained profits 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 April 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. 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 recognises revenue from the following major sources which arise from contracts with customers:

- Retailing of footwear; and
- e-Commerce and e-Payment

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 (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses (“ECL”) for financial assets and other items (for example, contract assets, lease receivables and financial guarantee contracts).

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 April 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 April 2018. The difference between carrying amounts as at 31 March 2018 and the carrying amounts as at 1 April 2018 are recognised in the opening retained profits 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.

Summary of effects arising from initial application of HKFRS 9

	Carrying amount as at 31 March 2018 <i>HK\$'000</i>	Effect of adoption of HKFRS 9 <i>HK\$'000</i>	Carrying amount as at 1 April 2018 <i>HK\$'000</i>
Trade receivables	38,323	(36)	38,287
Deposits, prepayment and other receivables	136,014	(997)	135,017
Loan receivables	130,873	(1,337)	129,536
Accumulated losses	(827,603)	(2,368)	(829,971)

2.3 New and amended standards have been issued but are not effective and have not been early adopted by the Group

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 16	Leases ¹
HKFRS 17	Insurance Contracts ²
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement ¹
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle ¹
Amendments to HKFRS 3	Definition of a Business ³
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to HKAS 1 and HKAS 8	Definition of Material ⁵

¹ Effective for annual periods beginning on or after 1 January 2019.

² Effective for annual periods beginning on or after 1 January 2021.

³ Effective for business combinations and assets acquisitions for which the acquisition date is on or after the first period beginning on or after 1 January 2020.

⁴ Effective for annual periods beginning on or after a date to be determined.

⁵ Effective for annual periods beginning on or after 1 January 2020.

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale.

HKFRS 16 also includes requirements relating to subleases and lease modifications. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 March 2019, the Group has non-cancellable operating lease commitments of HK\$15,752,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK\$8,352,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right of-use assets.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

3 SEGMENT INFORMATION

The Group is principally engaged in the retailing of footwear in Hong Kong, the PRC and Taiwan, and e-Commerce and e-Payment business.

The chief operating decision-maker has been identified as the Executive Directors. The Executive Directors review the Group's financial information to assess the performance and allocate resources.

The Group has two reportable segments. The segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

- Retailing of footwear
- e-Commerce and e-Payment

The Executive Directors assess the performance of the operating segments based on a measure of segment loss without allocation of administrative expenses, other gains, other (expenses)/income and finance income/(costs), which is consistent with that in the financial statements. During the year ended 31 March 2018, the Directors consider to dispose the e-Commerce and e-Payment business. During August 2017 and June 2018, MOUs were signed for the potential disposal, which led to discontinue the operation of e-Commerce and e-Payment business. In accordance of HKFRS 5, e-Commerce and e-Payment business for the years ended 31 March 2019 and 2018 were classified as discontinued operation in the Group's consolidated financial statements.

Segment assets mainly exclude loan receivables in respect of the Group's financial services business, refundable advance payment in relation to the purchase of the Milan Properties and deferred tax assets.

Segment liabilities mainly exclude current tax liabilities, deferred tax liabilities, convertible bonds, corporate bond and obligation under finance lease.

In respect of geographical segment reporting, sales are based on the country in which the customer is located, and total assets and capital expenditure are based on the country where the assets are located.

(a) **Business and geographical segment**

The segment results for the year ended 31 March 2019 are as follows:

	Continuing operations				Discontinued operations		Total HK\$'000
	Retailing of footwear			Subtotal HK\$'000	Unallocated HK\$'000	e-Commerce and e-Payment HK\$'000	
	Hong Kong HK\$'000	The PRC HK\$'000	Taiwan HK\$'000				
Revenue	<u>51,283</u>	<u>52,801</u>	<u>6,265</u>	<u>110,349</u>	<u>-</u>	<u>-</u>	<u>110,349</u>
Segment loss	(12,614)	(62,284)	(526)	(75,424)	(103,349)	(11,300)	(190,073)
Finance income							12,495
Finance costs							(77,508)
Share of loss of an associate							(2,300)
Income tax credit							-
Loss for the year							<u>(257,386)</u>
Other segment items are as follows:							
Capital expenditure	-	174	-	174	448	-	622
Share of loss of associates	-	-	-	-	(2,300)	(427)	(2,727)
Share option expenses	-	-	-	-	2,574	-	2,574
Depreciation of property, plant and equipment	1,011	2,875	2	3,888	246	230	4,364
Amortisation of intangible assets	109	53	-	162	-	9,897	10,059
Impairment of property, plant and equipment	157	-	-	157	-	-	157
Losses on disposal of property, plant and equipment	14	264	-	278	-	-	278
Write back of inventories, net	<u>(6,417)</u>	<u>965</u>	<u>(20)</u>	<u>(5,472)</u>	<u>-</u>	<u>-</u>	<u>(5,472)</u>

The segment results for the year ended 31 March 2018 are as follows:

	Continuing operations				Discontinued operations		Total HK\$'000
	Retailing of footwear			Subtotal HK\$'000	Unallocated HK\$'000	e-Commerce and e-Payment HK\$'000	
	Hong Kong HK\$'000	The PRC HK\$'000	Taiwan HK\$'000				
Revenue	88,324	250,569	7,264	346,157	–	–	346,157
Segment loss	(21,609)	(54,267)	(793)	(76,669)	(69,176)	(2,689)	(148,534)
Finance income							9,701
Finance costs							(69,502)
Share of losses of associates							(1,634)
Income tax credit							586
Loss for the year							(209,383)
Other segment items are as follows:							
Capital expenditure	621	5,898	1	6,520	–	9,307	15,827
Share of losses of associates	–	–	–	–	(1,634)	(595)	(2,229)
Share option expenses	–	–	–	–	15,531	–	15,531
Depreciation of property, plant and equipment	1,716	5,474	14	7,204	23	173	7,400
Amortisation of intangible assets	135	454	–	589	–	–	589
Impairment of property, plant and equipment	233	–	–	233	–	–	233
Gain on disposal of asset held for sale	(7,217)	–	–	(7,217)	–	–	(7,217)
(Gain)/loss on disposal of property, plant and equipment	(23,921)	34	9	(23,878)	–	–	(23,878)
Write back of inventories, net	93	(6,125)	279	(5,753)	–	–	(5,753)

The segment assets and liabilities at 31 March 2019 are as follows:

	Continuing operations				Discontinued operations		Total HK\$'000
	Retailing of footwear			Subtotal HK\$'000	e-Commerce and e-Payment HK\$'000		
	Hong Kong HK\$'000	The PRC HK\$'000	Taiwan HK\$'000				
Segment assets	15,132	15,155	2,260	32,547	245,111	277,658	
Unallocated assets						251,431	
Total assets						529,089	
Segment liabilities	31,433	86,610	825	118,868	66,477	185,345	
Unallocated liabilities						572,031	
Total liabilities						757,376	

The segment assets and liabilities at 31 March 2018 are as follows:

	Continuing operations				Discontinued operations	Total HK\$'000
	Retailing of footwear				e-Commerce and e-Payment	
	Hong Kong HK\$'000	The PRC HK\$'000	Taiwan HK\$'000	Subtotal HK\$'000	HK\$'000	
Segment assets	84,885	148,267	3,989	237,141	241,830	478,971
Unallocated assets						255,668
Total assets						<u>734,639</u>
Segment liabilities	28,482	109,663	6,106	144,251	52,408	196,659
Unallocated liabilities						500,777
Total liabilities						<u>697,436</u>
					Specified non-current assets	
					2019	2018
					HK\$'000	HK\$'000
Hong Kong					3,021	2,059
PRC					14,204	21,042
Taiwan					9	11
					<u>17,234</u>	<u>23,112</u>

(b) Information about major customers

For the years ended 31 March 2019 and 2018, none of the customers contributed 10% or more of the revenue of the Group.

4 EXPENSES BY NATURE

Continuing operations

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Purchase of and changes in inventories	75,916	176,822
Auditor's remuneration		
— Audit service	1,200	1,650
— Non-audit service	—	44
Depreciation of property, plant and equipment		
— owned assets	4,011	7,104
— leased assets	123	123
Impairment of property, plant and equipment	157	233
Amortisation of intangible assets	162	589
Operating lease rental in respect of leasehold land and buildings		
— minimum lease payments	12,864	17,480
— turnover rental expenses	38,615	105,547
Advertising and promotion expenses	3,104	9,184
Write-back of inventories, net	(5,472)	(5,753)
Employee benefit expenses	86,774	155,729
Other expenses	41,367	57,802
	<u>258,821</u>	<u>526,554</u>
Total cost of sales, selling and distribution costs and administrative expenses	<u>258,821</u>	<u>526,554</u>

Expenses by nature of the Group have been presented in the consolidated income statement as follows:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Cost of sales	70,444	171,069
Selling and distribution costs	115,329	251,757
Administrative expenses	73,048	103,728
	<u>258,821</u>	<u>526,554</u>

5 OTHER GAINS OR LOSSES

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Gain on disposal of assets held for sale	—	7,217
(Loss)/Gain on disposal of property, plant and equipment	(278)	23,878
Impairment expense	(2,086)	—
Written off of inventory	(23,976)	—
Provision for doubtful debt	(7,424)	—
Net foreign exchange gain/(loss)	88	(543)
	<u>(33,676)</u>	<u>30,552</u>

6 OTHER INCOME

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Licence fee and royalty income	239	460
Government subsidies (<i>note</i>)	1,899	1,882
Gain on disposal of subsidiaries	512	–
Others	725	1,658
	<u>3,375</u>	<u>4,000</u>

Note: Government subsidies represent incentives received from the PRC tax authority for operating investment in Waigaoqiao Free Trade Zone in the PRC.

7 FINANCE COSTS, NET

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Finance income		
— Interest income from bank deposits	10	45
— Interest income — others	12,485	9,656
	<u>12,495</u>	<u>9,701</u>
Finance costs		
— Amortisation of unrealised fair value of convertible bonds	(16,768)	(15,869)
— Interest on convertible bonds	(5,067)	(4,535)
— Interest on non-convertible bonds	(55,645)	(47,178)
— Interest on bank borrowings	(17)	(1,805)
— Interest expense — others	–	(103)
— Interest on obligation under finance lease	(11)	(12)
	<u>(77,508)</u>	<u>(69,502)</u>
Finance costs, net	<u>(65,013)</u>	<u>(59,801)</u>

8 INCOME TAX CREDIT

The amount of income tax credit charged to the consolidated income statement represents:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Current income tax		
— Hong Kong profits tax	—	—
— PRC corporate income tax	—	—
	<u>—</u>	<u>—</u>
Deferred income tax	—	586
	<u>—</u>	<u>586</u>

Taxation has been provided at the appropriate rates prevailing in the countries in which the Group operates. Hong Kong profits tax has not been provided for as the Group has no assessable profits for the years ended 31 March 2019 and 2018.

9 DISCONTINUED OPERATIONS

During August 2017 and June 2018, the Group entered into MOUs to dispose of the e-Commerce and e-Payment business. The disposal is expected to be completed before the end of the year 2019, the date on which the control of the e-Commerce and e-Payment business passed to the acquirer. The sales, results and cash flows of the e-Commerce and e-Payment business were as follows:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Other income	995	228
Share of loss of an associate	(427)	(595)
Expenses	(11,868)	(2,322)
	<u>(11,300)</u>	<u>(2,689)</u>
Loss before tax expense	(11,300)	(2,689)
Income tax expense	—	—
	<u>(11,300)</u>	<u>(2,689)</u>
Loss for the year from discontinued operations	(11,300)	(2,689)
Operating cash flows	(14,744)	610
Investing cash flows	—	(18)
Financing cash flows	—	—
	<u>(14,744)</u>	<u>592</u>

The carrying amounts of the assets and liabilities of e-Commerce and e-Payment business at the year ended date are disclosed in the consolidated financial statements.

For the purpose of presenting discontinued operations, the comparative consolidated income statement and the related notes have been re-presented as if the operations discontinued during the year had been discontinued at the beginning of the comparative period.

10 LOSS PER SHARE

For continuing and discontinued operations

(a) Basic

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2019	2018
Loss from continuing operations attributable to equity holders of the Company (<i>HK\$'000</i>)	(245,361)	(206,076)
Loss from discontinued operations attributable to equity holders of the Company (<i>HK\$'000</i>)	<u>(11,236)</u>	<u>(2,600)</u>
Loss attributable to equity holders of the Company (<i>HK\$'000</i>)	<u>(256,597)</u>	<u>(208,676)</u>
Weighted average number of ordinary shares in issue (<i>'000</i>)	<u>716,190</u>	<u>716,190</u>

(b) Diluted

Diluted loss per share is the same as basic loss per share for the year ended 31 March 2019 and 2018 as there were no dilutive potential ordinary share outstanding during the year.

11 DIVIDEND

The Board has recommended not to declare dividend for the year ended 31 March 2019 (2018: Nil).

12 TRADE RECEIVABLES

Retail sales are in cash, by credit cards or collected by department stores on behalf of the Group. The department stores normally settle the proceeds to the Group within 2 months from the date of sales.

Ageing analysis of trade receivables by invoice date at the statement of financial position date is as follows:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
0–30 days	1,640	19,724
31–60 days	1,622	8,827
61–90 days	890	2,527
Over 90 days	<u>8,185</u>	<u>7,812</u>
	12,337	38,890
Less: Provision for impairment of trade receivables	<u>(7,947)</u>	<u>(567)</u>
	<u>4,390</u>	<u>38,323</u>

13 NET ASSETS HELD FOR SALE

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Non-current assets		
Property, plant and equipment	276	506
Intangible assets	229,173	239,070
Interests in an associate	174	645
Current-assets		
Trade receivables, prepayment and other receivables	–	865
Cash and cash equivalents	15,488	744
Non-current assets classified as held for sale	<u>245,111</u>	<u>241,830</u>
Current liabilities		
Trade and other payables	(30,324)	(16,255)
Deferred tax liabilities	(36,153)	(36,153)
Liabilities directly associated with non-current assets classified as assets held for sale	<u>(66,477)</u>	<u>(52,408)</u>
Net assets held for sale	<u>178,634</u>	<u>189,422</u>

14 TRADE PAYABLES

The ageing analysis of trade payables by invoice date is as follows:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
0–30 days	4	12,323
31–60 days	–	5,239
61–90 days	19	1,020
Over 90 days	62,849	84,155
	<u>62,872</u>	<u>102,737</u>

The amounts are repayable according to normal trade terms from 30 to 90 days.

AUDITORS' OPINION

The auditors' opinion as extracted from the Group's financial statements for the year ended 31 March 2019 as set out below:

“DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of Vestate Group Holdings Limited (the “**Company**”) and its subsidiaries (together the “**Group**”), which comprise the consolidated statement of financial position as at 31 March 2019, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the consolidated financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION

1. Going concern

As at 31 March 2019, the Group had net current liabilities of approximately HK\$218,284,000 and incurred a net loss of approximately HK\$257,386,000 for the year then ended.

As disclosed in note 2.1, the consolidated financial statements have been prepared by the Directors of the Company on a going concern basis, the validity of which depends upon the results of the successful implementation and outcome of the measures to be undertaken by the Group. In view of the extent of the material uncertainties relating to the results of those measures to be undertaken by the Group which might cast a significant doubt on the Group's ability to continue as a going concern, we have disclaimed our audit opinion on the consolidated financial statements.

Should the going concern assumption be inappropriate, adjustments would have to be made to the consolidated financial statements to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liability as current assets and current liabilities respectively. The effect of these adjustments have not been reflected in the consolidated financial statements.

2. **Loan receivables and refundable advance payment**

As at 31 March 2018 and 2019, the Group had (i) loan receivables of approximately HK\$135,846,000 (2018: HK\$130,873,000); and (ii) refundable advance payment of approximately HK\$98,881,000 (2018: HK\$98,881,000) (together as “Receivables”).

We were unable to obtain sufficient appropriate audit evidence regarding the Receivables, including but not limited to: (i) unable to carry out any effective confirmation procedures in relation to the Receivables for the purpose of our audit; (ii) inadequate documentary evidence available for us to satisfy ourselves as to whether the expected credit loss assessment in respect of the Receivables were appropriate; and (iii) no alternative audit procedures that we could perform to satisfy ourselves as to the recoverability of the Receivables.

Any adjustments that might have been found necessary might have an effect on the Group’s net liabilities at as 31 March 2018 and 2019, and its financial performance and cash flows of the Group for the years then ended, and the related disclosures thereof in the consolidated financial statements.

3. **Non-current assets classified as held for sale (“Held for Sales”)**

As at 31 March 2019, the Directors of the Company classified the assets and liabilities of the e-Commerce and e-Payment business as Held for Sale (the “**Classification**”).

As disclosed in Notes 9 to the consolidated financial statements, the Group signed two MOUs with the potential buyers to sell out the e-Commerce and e-Payment business at consideration with reference to its market value in August 2017 and June 2018 (the “**Potential Disposal**”). However, there were no progress since the date of signing the MOUs.

We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves that the Potential Disposal is highly probable to complete within one year from the date of Classification. Accordingly, we have not been able to determine whether the Classification is appropriate.

Should the Classification assumption be inappropriate, adjustments would have to be made to the consolidated financial statements to reclassify the assets and liabilities included in the Held for Sale to the appropriate accounts. The effect of these adjustments have not been reflected in the consolidated financial statements.

4. **Scope limitation — Impairment assessment of goodwill and intangible assets**

As at 31 March 2019, the Group had goodwill and intangible assets of approximately HK\$36,153,000 (2018: HK\$36,153,000) and HK\$193,020,000 (2018: HK\$202,917,000), respectively, which were belong to the Group’s cash generating unit of e-Commerce and e-Payment operation (the “**CGU**”).

As disclosed in the consolidated financial statements, an impairment assessment of the CGU has been performed by the Directors of the Company (the “**Impairment Assessment**”). As a result of the Impairment Assessment, no impairment loss has been recognised in the consolidated financial statements.

We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves that (i) the relevance and reasonableness of key assumptions used in the Impairment Assessment; and (ii) the relevance, completeness and accuracy of source data used in the Impairment Assessment. Accordingly, we were unable to satisfy ourselves that the Group’s goodwill and intangible assets as at 31 March 2018 and 2019 were fairly stated.

Any adjustments that might have been found necessary might have an effect on the Group’s net liabilities at as 31 March 2018 and 2019, and its financial performance and cash flows of the Group for the years then ended, and the related disclosures thereof in the consolidated financial statements.”

MANAGEMENT DISCUSSION AND ANALYSIS

Group’s Business Overview

The board of directors (“**Board**” and “**Directors**” respectively) of Vestate Group Holdings Limited (“**Company**”) presents the audited consolidated results of the Company and its subsidiaries (collectively, “**Group**”) for the year ended 31 March 2019 (“**Year**”).

BUSINESS OVERVIEW

The Group is principally engaged in the development and retailing of a diversified range of footwear products under its own brands, namely, ARTEMIS, COUBER.G, FORLERIA, A+A2, TRU-NARI, MY WALKER and WALACI, through its self-managed retail shops (“**Self-managed Shops**”) and concession points in department stores (“**Concession Points**”). The Group possesses a sales network across the regions of the People’s Republic of China (“**PRC**”), Hong Kong and Taiwan.

As at 31 March 2019, the Group operated a total of 12 Self-managed Shops in Hong Kong and 69 Concession Points (61 in the PRC, 1 in Hong Kong and 7 in Taiwan). During the Year, the Group had a net decrease of 13 Self-managed Shops, 211 Concession Points and 1 Franchised Stores. The following table summarizes the number and distribution of Self-managed Shops, Concession Points and Franchised Stores (collectively, “**Retail Points**”) in terms of geographical regions as at 31 March 2019 as compared to last year.

As at 31 March

Region	2019				2018			
	Self-managed Shops	Concession Points	Franchised Stores	Total	Self-managed Shops	Concession Points	Franchised Stores	Total
The PRC								
Beijing	-	23	-	23	3	62	-	65
Eastern China	-	11	-	11	-	57	-	57
Southern China	-	-	-	-	1	29	-	30
Western China	-	3	-	3	-	33	-	33
Central China	-	17	-	17	-	49	-	49
Northern China	-	7	-	7	-	40	1	41
Sub-total	-	61	-	61	4	270	1	275
Hong Kong	12	1	-	13	21	2	-	23
Taiwan	-	7	-	7	-	8	-	8
Total	12	69	-	81	25	280	1	306

BUSINESS REVIEW AND OUTLOOK

For the Year, the Group recorded a decrease of 68.1% in its consolidated revenue to approximately HK\$110 million (2018: HK\$346 million). Revenue from the PRC, Hong Kong and Taiwan markets decreased by 78.9%, 41.9% and 13.8% respectively. The overall same store sales of the Group dropped by approximately 34.9% and the overall gross profit margin of the Group decreased by 14.4 percentage points to 36.2%. The Group's overall operating expenses as a percentage of turnover increased by 68.0 percentage points. Loss attributable to the equity holders was approximately HK\$257 million (2018: HK\$209 million). Loss per share amounted to approximately HK\$35.83 cents (2018: HK\$29.14 cents).

The three geographical market segments, namely the PRC, Hong Kong and Taiwan accounted for 48%, 46% and 6% of the Group's total revenue respectively (2018: 72%, 26% and 2%).

Various measures on inventory management were taken during the Year in order to clear excessive stocks and maintain a healthy inventory level. As at 31 March 2019, the Group's inventory balance (net) was HK\$3 million, down 97.4% from HK\$97 million as at 31 March 2018.

The PRC

During the Year, the revenue generated in the PRC was approximately HK\$53 million (2018: HK\$251 million), representing a decrease of 78.9% as compared to the previous year. The operation in PRC incurred a loss of HK\$62 million for the Year (2018: HK\$54 million).

Same store sales dropped by approximately 53.9% and operating deficit to revenue ratio increased by 96.3 percentage points as compared to last year.

Hong Kong

During the Year, the revenue generated in Hong Kong was approximately HK\$51 million (2018: HK\$88 million), representing a decrease of 41.9% as compared to the previous year. The operating loss in Hong Kong decreased by HK\$9 million, representing an decrease of 41.6% as compared to last year. Same store sales dropped by approximately 25.2% while operating deficit to revenue ratio increased by 0.1 percentage points to 24.6% as compared to last year.

Taiwan

During the Year, the revenue generated in Taiwan was approximately HK\$6 million (2018: HK\$7 million), representing a decrease of 13.8% as compared to the last year. The operating loss in Taiwan decreased by HK\$0.3 million, representing a decrease of 33.7% as compared to last year. Same store sales decreased by approximately 3% while operating deficit to revenue ratio decreased by 2.5 percentage points to 8.4% as compared to last year.

Outlook

Looking ahead, Sino-US trade disputes and China's increasingly complex business environment will face more difficulties and challenges. The Group will continue to shrink the retail points, apply resources to existing businesses and actively explore the new businesses to maintain business stability while diversifying industry risks.

FINANCIAL REVIEW

Financial Position

The Group financed its operations with internal funding, issuing the bonds and the standby evolving loan facilities by the independent third party and adopted a prudent approach in managing its financial needs.

As at 31 March 2019, the Group had cash and cash equivalents amounting to HK\$1.8 million (2018: HK\$54 million). The Group has no outstanding bank borrowings (2018: HK\$5 million). Current and non-current convertible bonds were approximately HK\$142 million and HK\$28 million respectively. As at 31 March 2019, the current ratio stood at 0.7 times (2018: 3.3 times) and the gearing ratio stood at 107.8% (2018: 68.7%).

As at 31 March 2019, the Group had no banking facilities (2018: Nil) and no charge on its assets. The Group also had no bank loans and bank guarantees as at 31 March 2019 (2018: HK\$5 million).

During the Year, inventory turnover days increased to approximately 258 days (2018: 245 days). As at 31 March 2019, inventory amounted to approximately HK\$3 million (2018: HK\$97 million).

Capital Expenditure

During the Year, the Group's capital expenditure amounted to HK\$0.6 million (2018: HK\$16 million), comprising principally the purchase of leasehold improvements, computer equipment and computer software.

Foreign Exchange Management

The Group operates principally in the PRC and Hong Kong and its transactions are mainly denominated in Renminbi or Hong Kong dollars. The Group does not expect any significant foreign currency risk and did not enter into any forward contract to hedge its foreign exchange risk during the Year.

Convertible Bonds

- (a) The Company issued the convertible bonds to subscriber in principal amount of HK\$30,000,000 on 5 July 2016 (“**First Bonds**”). The First Bonds may be converted into 16,574,585 new Shares at a conversion price of HK\$1.81 per share and the bonds bear coupon interest at the rate of 6% per annum and due 2020. The net proceeds from the First Bonds had been fully utilized. Pursuant to the terms of the First Bonds contain specific performance obligations imposed on Mr. ZHU Xiaojun (“**Mr. Zhu**”), an executive Director, the chairman of the Board and a controlling shareholder of the Company. Mr. Zhu is required (i) in his personal capacity or through any entity or company controlled by him, to hold at least 50% of the issued share capital of the Company; and (ii) to remain as an executive Director. Any non-compliance with the aforesaid specific performance obligation will constitute an event of default and upon the bondholder giving a notice to the Company, the bonds will immediately become due and payable in accordance with the terms and conditions of the First Bonds.

(b) The Company also issued the convertible bonds to subscriber in principal amount of HK\$150,000,000 on 24 August 2016 (“**Second Bonds**”). The Second Bonds may be converted into 81,300,813 new Shares at a conversion price of HK\$1.845 per share and the bonds bear coupon interest at the rate of 10.5% per annum and due 2019. The net proceeds from the Second Bonds were approximately HK\$146,900,000. As at 31 March 2018, the Company had utilized the net proceeds of approximately HK\$127,956,000 and had unutilized the net proceeds of approximately HK\$18,944,000. Due to the “One Belt, One Road” (“**OBOR**”) project has been completed and had no potential acquisition to be invested in the near future. The Company resolved to reallocate the unutilized net proceeds, originally allocated for the development of the OBOR related business and other future acquisitions, to the general working capital of the Group so as to enhance the efficiency of the deployment of the net proceeds. During the Year, the net proceeds had been utilized as follows:

1. Interest payment of the First Bonds and Second Bonds	HK\$6,556,000
2. Payment of salary and rental expenses for the operation of the existing businesses of the Group	<u>HK\$12,388,000</u>
Total net proceeds utilised	<u><u>HK\$18,944,000</u></u>

As at 31 March 2019, the net proceeds of the Second Bonds had been fully utilized. During the Year, no Share was issued by the Company upon the subscriber exercise of their conversion rights of the bonds.

Corporate Bond

On 8 May 2017, the Company issued the bonds to the investor in principal amount of HK\$350,000,000 at interest rate of 12% per annum for the first year and 13% per annum for the second year and due 2019 (“**Bonds**”). Pursuant to the terms of the Bonds, a specific performance obligation is imposed on Mr. Zhu, that during the term of the Bonds, Mr. Zhu, together with parties acting in concert with him, should own directly or indirectly more than 50% of the voting shares of the Company. Any breach of the aforesaid specific performance obligation may constitute a breach under the subscription agreement, pursuant to which the investor is entitled to redeem the Bonds immediately in accordance with the terms and conditions of the Bonds.

Pledge of Assets

As at 31 March 2019, the Group had no pledge of assets. (2018: Nil).

Contingent Liabilities

As at 31 March 2019, the Group had no material contingent liabilities or off-balance sheet obligations (2018: Nil).

GROUP STRUCTURE

During the Year, there was no material change in the corporate structure of the Group.

HUMAN RESOURCES

As at 31 March 2019, the Group had a total of 261 employees (2018: 1,169 employees) and the total staff cost for the Year was HK\$87 million (2018: HK\$156 million), representing 78.6% of the Group's total revenue. The Group offers competitive remuneration packages to its employees, including mandatory retirement funds, insurance, medical coverage and purchase discounts. In addition, incentive share options and performance-based discretionary bonus on an annual basis may be granted to employees subject to the Group's and individual performance. The Group also provides regular trainings and workshops to its frontline and back office staff on sales techniques, product knowledge and team building.

MAJOR AND CONNECTED TRANSACTION

On 17 June 2017, the Company entered into the preliminary agreement with the vendor, a company incorporated in Italy ("**Vendor**"), in relation to the Company will acquire the properties located at Milan, Italy from the Vendor ("**Properties**") for a purchase price of Euro 34,000,000 (equivalent to approximately HK\$297,160,000) ("**Acquisition**"). The Vendor and the Company will further enter into the notarial deed of purchase, which is within six months after completion of the construction of the Properties. The construction of the Properties commenced in June 2017 and the Properties are currently under construction and the construction is expected to be completed in end of September 2019.

The Vendor is beneficially owned as to 70% by Ms. CAI Jiaying, an executive Director, and hence the Vendor is a connected person of the Company. The Acquisition constitutes a connected transaction on the part of the Company under Chapter 14A of the Listing Rules. Details of the Acquisition are set out in the announcement of the Company dated 17 June 2017 and the circular dated 31 October 2017.

DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

On 2 July 2018, Genius Earn Investments Limited, a wholly owned subsidiary of the Group ("**Vendor**"), entered into the disposal agreement between with the purchaser in relation to the disposal of 49% of the issued share capital of Ascent Pride Investment Limited ("**Target Company**"), a wholly owned subsidiary of the Group ("**Disposal Agreement**"), at the consideration of HK\$50,000,000 ("**Disposal**"). The Target Company owned the companies established in the PRC principally engaged in development and retailing of footwear products in the PRC. The Vendor and the purchaser shall use its best endeavours to procure the fulfillment of the conditions set out in the Disposal Agreement. If the said conditions have not been satisfied on or before the date falling six months after the date of the Disposal Agreement, or such later date as the Vendor and the purchaser may agree in writing ("**Long Stop Date**"), the Disposal Agreement shall cease and determine and thereafter neither party shall have any obligations and liabilities towards each other hereunder save for any antecedent breaches of the terms of the Disposal Agreement. On 2 January 2019, the Vendor and the Purchaser entered into an extension letter to extend the Long Stop Date to on or before 30 June 2019 due to additional time is required to arrange for the signing of the Assignment Deed and the Deed of Novation. Upon completion of the Disposal, the Group will remain to have 51% interests in the Target Company. Pursuant to Rule 14.44 of the Listing Rules, a written shareholder's approval for the Disposal Agreement has been obtained from the controlling

Shareholder, in lieu of holding a general meeting of the Company. Details of the Disposal are set out in the announcements of the Company dated 6 July 2018 and 2 January 2019 and the circular dated 17 August 2018. As at the date of this announcement, this transaction has not completed.

PRINCIPAL RISKS AND UNCERTAINTIES

There are various risks and uncertainties including business risks, capital risks and financial risks that may have different levels of impact on the Group's financial performance, operations, business as well as future prospects. The financial risk and capital risk are set out in the consolidated financial statements. Besides, the following are the key risks and uncertainties identified by the Group. There may be other risks and uncertainties in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

- (i) Increase in rental and concession fees;
- (ii) Reliance on key management personnel;
- (iii) Misjudgement of fashion trends or changes in consumers' demand or failure to respond to such changes in a timely manner;
- (iv) Competition in footwear market in the PRC and Hong Kong; and
- (v) Economic downturn in the PRC and Hong Kong.

FINAL DIVIDEND

The Board resolved not to declare a final dividend for the Year (2018: Nil).

CORPORATE GOVERNANCE

The Board is committed to establishing and maintaining good corporate governance practices within the Group to have better transparency and protection of shareholders' interest in general. We believe that a well-balanced corporate governance structure will definitely enable better management of its business risks and thereby ensure the Group is operated in the best interests of its shareholders and other stakeholders.

The Board as a whole is responsible for performing the corporate governance functions set out in the code provision D.3.1 of the "Corporate Governance Code and Corporate Governance Report" ("**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities ("**Listing Rules**") on The Stock Exchange of Hong Kong Limited ("**Stock Exchange**"). These functions included:

- to develop and review the Company's policies and practices on corporate governance;
- to review and monitor the training and continuous professional development of Directors and senior management;

- to review and monitor the Company’s policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- to review the Company’s compliance with the CG Code and disclosure in the Corporate Governance Report.

Currently, there are three board committees under the Board, namely Audit Committee, Nomination Committee and Remuneration Committee. All these committees perform their distinct roles in accordance with their respective terms of reference which have been posted on the websites of the Company and the Stock Exchange. These committees report directly to the Board on their works and make recommendations on matter where appropriate.

The Company has complied with all applicable code provisions set out in the CG Code throughout the year ended 31 March 2019 (“Year”), except that:

- (a) According to code provision A.2.1 of the CG Code, the roles of the chairman and the chief executive officer should be separate and should not be performed by the same individual. Throughout the Year, Mr. ZHU Xiaojun (“**Mr. Zhu**”) is the Chairman of the Board and is responsible for providing leadership and ensuring effective running of the Board. The duties of the chief executive are undertaken and performed by the Chairman of the Board, thus Mr. Zhu also responsible for the Group’s day-to-day operations and implementation of the Group’s strategies and is assisted by a management team, comprising executive Directors, general managers and department heads of the Group, with authority and responsibility for developing and exercising both operational and non-operational duties. Despite a part of responsibility of chief executive is vested in Mr. Zhu, in which all major decisions are made in consultation with the other Board members and the senior management of the Company. The Board believes that there is sufficient balance of power and the current arrangement maintains a strong management position of the Company. This was in deviation from A.2.1 of the CG Code.
- (b) According to Rule 3.10(1) and 3.21 of the Listing Rules, the Board is required at least three independent non-executive Directors and the audit committee of the Board (“**Audit Committee**”) must comprise a minimum of three members. Following the resignation of Mr. LEUNG Man Ho as the independent non-executive Director and ceased to be a member of both Audit Committee, the remuneration committee of the Board (“**Remuneration Committee**”) and the nomination committee of the Board (“**Nomination Committee**”) with effect from 29 September 2018, the Board has two independent non-executive Directors and the Audit Committee comprises only two members. This was in deviation from Rules 3.10(1) and 3.21 of the Listing Rules.

However, following the appointment of Mr. YU Lei as an independent non-executive Director and a member of each of the Audit Committee, Remuneration Committee and Nomination Committee with effect from 28 December 2018, the Company has three independent non-executive Directors and the Audit Committee comprises three members in compliance with the requirements under Rules 3.10(1) and 3.21 of the Listing Rules.

DIRECTORS' AND RELEVANT EMPLOYEES' SECURITIES TRANSACTIONS

The Company has adopted the “Model Code for Securities Transactions by Directors of Listed Issuers” contained in Appendix 10 to the Listing Rules (“**Model Code**”) as its code of conduct regarding Directors’ securities transactions. Having made specific enquiries with all Directors, they have confirmed their compliance with the Model Code throughout the Year. On June 2013, the Company adopted written guidelines on terms no less exacting than the Model Code for relevant employees in respect of the dealings in the Company’s securities.

REVIEW BY THE AUDIT COMMITTEE

The Audit Committee has reviewed with the management the Group’s consolidated financial statements for the Year and the accounting principles and practices adopted by the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s securities during the Year.

PUBLICATION OF THE ANNUAL REPORT

The annual report for the Year will be despatched to shareholders of the Company and published on the websites of the Stock Exchange at www.hkex.com.hk and the Company at www.vestategroup.com in due course.

By Order of the Board
Vestate Group Holdings Limited
ZHU Xiaojun
Chairman

Hong Kong, 28 June 2019

As at the date of this announcement, the Board comprises:

Executive Directors:

Mr. ZHU Xiaojun
Mr. KANG Jianming
Ms. CAI Jiaying
Mr. YIN Wansun

Independent Non-executive Directors:

Ms. ZHAO Hong
Mr. CHAU Wai Hing
Mr. YU Lei