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**China Fortune Holdings Limited**

**中國長遠控股有限公司\***

*(Incorporated in Bermuda with limited liability, carrying on business in H.K. as CFH Ltd.)*

**(Stock Code: 110)**

**(1) SUPPLEMENTAL ANNOUNCEMENT  
IN RELATION TO  
THE QUALIFIED OPINION SET OUT  
IN THE INDEPENDENT AUDITOR'S REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2019  
AND  
(2) CONNECTED TRANSACTION  
PROVISION OF FINANCIAL ASSISTANCE TO  
CONNECTED PERSON AT THE SUBSIDIARY LEVEL**

Reference is made to the announcement of annual results for the year ended 31 December 2019 of China Fortune Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 17 July 2020 and the qualified opinion (“**Qualified Opinion**”) set out in the Independent Auditor’s Report for the year ended 31 December 2019 (the “**Announcement**”). Unless otherwise defined herein, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcement.

In the course of the 2019 annual audit, BDO Limited (the “**Auditor**”), the auditor of the Company, was unable to obtain the adequate audit information to assess management’s impairment assessment relating to certain receivables of the Group.

\* *For identification purpose only*

## BACKGROUND OF THE AUDIT QUALIFICATIONS

### The Debt

In late 2018 and early 2019, the Group made purchases of mobile phones from its supplier, 重慶唯亞致新科技有限公司 (Chongqing Weiyazhixin Technology Company Limited\*) (“**Chongqing Supplier**”), which is indirectly wholly-owned by 廣州萬創電子有限公司 (Guangzhou Wengchuang Electronics Company Limited\*), which is an owner of 49.0% of the shareholding in 重慶遠嘉通信設備有限公司 (Chongqing Yuanjia Communication Equipment Company Limited\*) (“**Chongqing Yuanjia**”), an indirect non-wholly owned subsidiary of the Company, therefore a connected person at the subsidiary level, the Group paid to the Chongqing Supplier a payment of approximately RMB7.0 million in December 2018 for goods delivered in August 2018. Due to the fact that the products delivered were not as receptive by the general public as initially expected, Chongqing Yuanjia requested on 4 March 2019 and the Chongqing Supplier agreed for a refund, so as to maintain a good business relationship with the Group, of the payment of RMB7.0 million previously made. Since January 2019 and up to October 2019, Chongqing Yuanjia also made advances totaling approximately RMB2.3 million (equivalent to approximately HK\$2.5 million) to the Chongqing Supplier as instructed by Mr. Dai as Mr. Dai understood from the Chongqing Supplier that the Chongqing Supplier will soon receive a shipment of mobile phones and it was verbally agreed between the Chongqing Supplier and Mr. Dai that Chongqing Yuanjia make an advance to the Chongqing Supplier as a deposit for securing the supply of this shipment of mobile phones. Chongqing Yuanjia requested on 16 December 2019 and the Chongqing Supplier agreed, for a refund of the RMB2.3 million deposit previously made as the Chongqing Supplier was not able to finalise with Chongqing Yuanjia the delivery schedule of the products. To the best knowledge, information and belief of the Directors, the Chongqing Supplier was also principally engaged in the trading of mobile phones and the supplier of the phones to the Chongqing Supplier was not able to finalise the delivery schedule caused by delays in the manufacturing process by the phone manufacturer. The total amount owed by the Chongqing Supplier to Chongqing Yuanjia therefore equate to approximately RMB9.3 million. As stipulated in the master agreement, products can be exchanged within one month after delivery and have a warranty period of one year. However, after negotiations between Chongqing Yuanjia and the Chongqing Supplier, the Chongqing Supplier agreed to the return and refund of the products while also agreeing for the return of the deposit. The Chongqing Supplier refunded approximately RMB0.5 million and RMB0.4 million in June 2019 and December 2019 respectively, with the remaining balance being approximately RMB8.4 million. Further netting off the accounts payable owed by Chongqing Yuanjia to the Chongqing Supplier for previous purchases of approximately RMB0.4 million, the amount owed by the Chongqing Supplier to the Group is RMB8.0 million (equivalent to approximately HK\$8.96 million), which is the Debt. Mrs. Dai, on behalf of the Chongqing Supplier, made two payments of RMB4.0 million on 15 April 2020 and 16 April 2020 to the Group, thereby fully settling the Debt. There is no interest, security or a set duration for the payment of RMB7.0 million and deposit of RMB2.3 million.

Although the payment of RMB7.0 million was made to the Chongqing Supplier in December 2018, no sales or purchases was recorded in the financial year ended 31 December 2018. This is because the inventory risk of the delivered goods was considered not being passed to neither the customer nor Chongqing Yuanjia during the year ended 31 December 2018.

Mr. King Lau is Chongqing Yuanjia's sole director and legal representative while Mr. Wei Dai, who is the brother of Mr. Dai, is the supervisor of Chongqing Yuanjia. Mr. King Lau is appointed by the Company and is also the vice president of the sales team. He is mainly responsible for the sales procedures of Chongqing Yuanjia, such as liaising with customers, negotiating terms of sales, documentation of sales cycle (e.g. issuing invoices and/or delivery notes, etc.) and arrange delivery of goods to customers. Mr. Dai is also responsible for the oversight of Chongqing Yuanjia's day to day operations and approval of any cash outflows.

As part of the purchase agreement between Chongqing Yuanjia and the Chongqing Supplier, a clause was included in the agreement where any items not stipulated in the agreement can be negotiated and potentially agreed to between the parties, namely Chongqing Yuanjia and the Chongqing Supplier, including terms such as return of products and/or refund of payments made. As such, the Board considers the payment of RMB7.0 million made to the Chongqing Supplier to be on normal commercial term, fair and reasonable and in the interests of the Company and its shareholders as it was solely for the purchase of mobile phones, which is in the Group's ordinary course of business and the purchase agreement entered into between Chongqing Yuanjia and the Chongqing Supplier granted Chongqing Yuanjia the flexibility to negotiate further terms if necessary. Although the purchase agreement did not clearly stipulate terms for penalty charges for late delivery or poor product quality or termination, it was the purpose of Chongqing Yuanjia to purchase and then trade the mobile phones supplied by the Chongqing Supplier. It was Chongqing Yuanjia's intention that in case the Chongqing Supplier did not agree to a refund, Chongqing Yuanjia would have requested for an exchange of products, which is allowed under the master agreement. For the advance of RMB2.3 million to the Chongqing Supplier as it was a deposit as verbally agreed between Mr. Dai and the Chongqing Supplier for the sourcing of goods, the Board considers such advance also be in the ordinary course of business as the nature of such advance was similar to a payment for purchases of products. Furthermore, although the deposit was made despite the delivery schedule not having been finalised, as Chongqing Yuanjia wanted to secure that batch of mobile phones, which the management at Chongqing Yuanjia believed at the time was popular in the market, it was necessary for Chongqing Yuanjia to make a deposit in order to secure the supply from the Chongqing Supplier. The Board consider this deposit to secure a future shipment of products to be necessary and normal for the business of the Group. Thus was on normal commercial term, fair and reasonable and was in the interest of the Company and its shareholders.

The Debt, consisting of the RMB7.0 million and the RMB2.3 million, are governed under the master agreement entered into between Chongqing Yuanjia and the Chongqing Supplier, and has been disclosed in the Company's announcement dated 20 July 2018. The management initially expected the Chongqing Supplier to make the relevant refund upon or shortly after the return of the goods. However, even though management used their best efforts in chasing the Chongqing Supplier, the Chongqing Supplier did not make the relevant refund until April 2020, which inadvertently caused the nature of the payment to have become a financial assistance to a connected person under Chapter 14A of the Listing Rules. The Directors did not realise at the time the change in nature of the payment as the Directors only considered the original intention of the payment, which was for the purchase of goods and was in the ordinary course of business of the Group.

For the deposit to the Chongqing Supplier, the management initially expected the delivery of the relevant products can be made shortly after the deposit. However, after noting that the delivery of the products did not realise in the expected timeline, the management began chasing for repayment of the deposit. Similar to the payment of RMB7.0 million, the deposit made by Chongqing Yuanjia inadvertently changed from being a deposit to being a financial assistance to a connected person under Chapter 14A of the Listing Rules.

The staff at Chongqing Yuanjia acted according to the instructions given by Mr. Dai as the staff considered Mr. Dai, who is holder of 49% of shareholding in Chongqing Yuanjia, being a major shareholder and therefore carry a responsibility for the day to day operations of the company. Although the management previously assigned a staff to review and report any suspected connected transactions before executing, the staff did not always follow such internal guidelines in reporting to the management before such transactions execute. The management therefore has reassigned the responsibilities of reviewing and reporting any suspected connected transactions to Mr. King Lau and has instructed Mr. King Lau to report any such cases since August 2020. Nevertheless, as disclosed in the announcement dated 29 September 2020 by the Company, the Company has disposed of its 51% interest in Chongqing Yuanjia and Chongqing Yuanjia has ceased to be part of the Group.

## **The Advance**

Since November 2018 up to November 2019, the Group has made advances to Mrs. Dai for Mrs. Dai's own business, totaling approximately RMB3.1 million (equivalent to approximately HK\$3.4 million). The management understood from Mr. Dai the rationale for provide the Advance to Mrs. Dai for her own business needs. The Company and the Board was not notified of the Advance prior or when it was made as Mr. Dai did not inform the Company nor the Board. The reason the staff in Chongqing Yuanjia made the advances to Mrs. Dai according to the instructions by Mr. Dai was to maintain good business relationships with Mr. Dai. As Chongqing Yuanjia has a continuous business relationship with the Chongqing Supplier and is 49% owned by Mr. Dai, the staff believed Mr. Dai has significant control over the decision making in and supply of products to Chongqing Yuanjia. The staff therefore, by processing such advance as instructed by Mr. Dai, wanted to maintain a good business relationship with Mr. Dai. There is no interest, security or a set duration for the advance to Mrs. Dai. Mrs. Dai began repaying the Advance since December 2019 and has already repaid approximately RMB300,000 up to May 2020. Mrs. Dai made further repayments of approximately RMB400,000 up to September 2020. As at the date of this announcement, the remaining balance outstanding amounted to approximately RMB2.4 million. It was agreed between the Group and Mrs. Dai would repay the Advance in installments with installments of RMB300,000 due on 30 September 2020 and RMB700,000 due on 31 October and 30 November 2020 respectively, and the remaining balance of RMB669,000 due on 31 December 2020. No penalty charges are stipulated for any late payment by Mrs. Dai. Nevertheless, as disclosed in the announcement dated 29 September 2020 by the Company, the Company has disposed of its 51% interest in Chongqing Yuanjia and Chongqing Yuanjia has ceased to be part of the Group. Therefore, the management is no longer responsible for the following up of repayments by Mrs. Dai to Chongqing Yuanjia.

The reason the staff in Chongqing Yuanjia provided the Advance was solely because of the instructions given by Mr. Dai. As the overseeing of daily operations and approval procedures are carried out by Mr. Dai, the staff would act according to instructions from him and Mr. Dai did not report to the Board as soon as the Advance was made.

As Mr. Dai indirectly controls 49% of the shareholding in Chongqing Yuanjia and he is responsible for the day to day operations and approval procedures for any cash outgoings at Chongqing Yuanjia, the staff at Chongqing Yuanjia would perform as instructed by Mr. Dai. Thus, although the Company indirectly owns 51% of the shareholding in Chongqing Yuanjia, the Company has delegated the supervision of the daily operations of Chongqing Yuanjia to Mr. Dai.

The Board considers the Advance made to Mrs. Dai to not be on normal commercial terms, unfair and not reasonable and was not in the interest of the Company and its shareholders. The Board has therefore ordered management upon discovering such Advance to request for a repayment from Mrs. Dai.

## **MANAGEMENT'S VIEW ON THE DEBT AND THE ADVANCE**

In preparation of the financial statements for the year ended 31 December 2019, the management took into consideration the following factors in arriving at its position:

- the discussion between the management of the Group and Mr. Dai and Mrs. Dai regarding the recoverability of the Debt and the Advance respectively;
- requested repayment schedules from Mr. Dai and Mrs. Dai for a timeline of when Mr. Dai and Mrs. Dai expect to be able to settle the Debt and the Advance respectively;
- the relevant PRC operations team responsible for the Debt and the Advance contacted Mr. Dai and Mrs. Dai and understood that Mr. Dai and Mrs. Dai committed to repay the Debt and the Advance in 2020. It was further noted that Mr. Dai and Mrs. Dai have adequate financial ability in order to settle the Debt and the Advance. The Hong Kong management team, after consulting with the PRC operations team, understood and therefore assessed that the expected credit losses of the Debt and the Advance were immaterial.

In assessing the repayment ability of the Chongqing Supplier, Mr. Dai and Mrs. Dai, the Group took into consideration (i) the experience of Mr. Dai in the mobile phones industry; (ii) the history of the business relationship between the Group and Mr. Dai and the Chongqing Supplier; and (iii) through discussion with Mr. Dai and Mrs. Dai, management understood from them that both Mr. Dai and Mrs. Dai would do their utmost to repay the amounts due to the Group, including but not limited to disposing of their assets or obtaining borrowings from banks.

Based on the above, the management assessed, using the expected credit loss model which is based on the credit loss amount in the past 12-months in consideration of the above reasons, and concluded that the probability of failing to recover the Debt and the Advance as being low.

### **Documents requested by the auditor**

During the Auditor's review of the management's impairment assessment of the Advance and the Debt, the Auditor requested the management to provide the basis of its assessment of the expected credit losses allowance on the Advance and the Debt. In order to review whether the basis of assessment made by the management was reasonable, the Auditor requested the management to provide any information to support the financial position and ability of the Chongqing Supplier, Mr. Dai and Mrs. Dai for the settlement, including but not limited to:

- (i) financial statement of the Chongqing Supplier or other companies owned by Mr. Dai and Mrs. Dai; or
- (ii) Mr. Dai and Mrs. Dai's asset proofs.

However, despite the effort made by the management in requesting Mr. Dai and Mrs. Dai to provide items (i) and (ii), both Mr. Dai and Mrs. Dai did not provide the relevant information due to their privacy concerns thus were unwilling to provide such information to the Company. As such, the management was not able to provide such information to the Auditor for their audit of the annual report for the year ended 31 December 2019.

### **AUDIT COMMITTEE'S VIEW ON THE AUDIT QUALIFICATIONS**

On 17 July 2020, the audit committee of the Company (the "Audit Committee") (i) discussed with the Auditor and (ii) enquired management of their basis of assessment on the Audit Qualifications, in which the Audit Committee agreed with management's impairment assessment regarding the Debt and the Advance whilst understanding the reasoning for the opinion issued by the Auditor.



## **PROPOSED TIMETABLE AND COURSE OF ACTION TO ADDRESS THE QUALIFIED OPINION BEFORE THE PUBLICATION OF THE ANNUAL RESULTS FOR THE YEAR ENDING 31 DECEMBER 2020**

### **The Debt**

On 16 April 2020, Mrs. Dai, on behalf of the Chongqing Supplier, has already settled the full amount of the Debt owed to the Group. A PRC legal opinion was obtained which advised that the funds received from Mrs. Dai to settle the Debt were legal and valid.

### **The Advance**

Mrs. Dai has repaid to the Group approximately RMB0.7 million up to August 2020. For the remaining balance of the Advance, Mrs. Dai has prepared a repayment schedule to the Group, with the repayment timeline as follows, where Mrs. Dai will be repaying in installments and being able to fully settle the Advance by December 2020.

As disclosed in the announcement dated 29 September 2020 by the Company, the Company has disposed of its 51% interest in Chongqing Yuanjia and Chongqing Yuanjia has ceased to be part of the Group. Therefore, the management is no longer responsible for the following up of repayments by Mrs. Dai to Chongqing Yuanjia.

The Directors, after discussion with the Auditors, understand that the audit qualifications will continue to exist in the Company's financial statements for the year ending 31 December 2020 for (i) its comparative figures on the consolidated financial statements for the year ended 31 December 2019; and (ii) the inability to determine whether it is necessary to recognise the expected credit loss allowance on the Advance and the Debt as at 31 December 2019, causing the Auditors being unable to determine whether any reversal would be necessary in the statement of comprehensive income for the year ending 31 December 2020.

The Directors further understand that the audit qualifications will also continue to exist in the Company's financial statements for the year ending 31 December 2021 for its comparative figures on the statement of comprehensive income for the year ending 31 December 2020 and will be fully removed in the Company's financial statements for the year ending 31 December 2022 if no other issues arise.

Saved as disclosed above, there are no any other relevant matters in relation to the Qualified Opinion that need to be brought to the attention of the Company's shareholders.



## CONNECTED TRANSACTIONS

### **Background**

#### ***The Debt***

The Group paid to the Chongqing Supplier a payment of approximately RMB7.0 million in December 2018 for goods delivered in August 2018. Since January 2019 and up to October 2019, Chongqing Yuanjia also made advances totaling approximately RMB2.3 million (equivalent to approximately HK\$2.5 million) to the Chongqing Supplier as instructed by Mr. Dai as Mr. Dai understood from the Chongqing Supplier that the Chongqing Supplier will soon receive a shipment of mobile phones and it was verbally agreed between the Chongqing Supplier and Mr. Dai that Chongqing Yuanjia make an advance to the Chongqing Supplier as a deposit for securing the supply of this shipment of mobile phones.

#### ***The Advance***

Since November 2018, Chongqing Yuanjia, being a 51% indirectly-owned subsidiary of the Company, has advanced to Mrs. Dai, the mother of Mr. Dai, being the sole shareholder of the Chongqing Supplier and therefore a connected person at the subsidiary level, a sum of approximately HK\$3.4 million. The management understands from Mrs. Dai that the Advance was for her own business needs.

## **Subject matter**

### ***The Debt***

Due to the fact that the products delivered were not as receptive by the general public as initially expected, Chongqing Yuanjia requested on 4 March 2019 and the Chongqing Supplier agreed for a refund, so as to maintain a good business relationship with the Group, of the payment of RMB7.0 million previously made. Chongqing Yuanjia also requested on 16 December 2019 and the Chongqing Supplier agreed, for a refund of the RMB2.3 million deposit previously made as the Chongqing Supplier was not able to finalise with Chongqing Yuanjia the delivery schedule of the products.

### ***The Advance***

Pursuant to the understanding between Chongqing Yuanjia and Mrs. Dai, Mrs. Dai will be using the Advance for her own business needs. It was agreed between the Group and Mrs. Dai that she would repay the Advance in installments and has begun repaying the Advance since December 2019 and has already repaid approximately RMB0.7 million up to August 2020.

## **Information of the Group**

The Group is principally engaged in distribution and trading of mobile phones and related accessories, development of marketing and after-sales service network and mining and processing of celestite, zinc and lead materials.

## **Reasons for the Debt and the Advance**

Chongqing Yuanjia is principally engaged in distribution and trading of mobile phones and related accessories.

### ***The Debt***

As mentioned above, the payment and the deposit to the Chongqing Supplier were for the purchase of mobile phones as part of the Group's ordinary course of business.

### ***The Advance***

The management understands from Mrs. Dai that the Advance was for her own business needs.

The Advance was not voted on by the Directors at the time the advances were provided to Mrs. Dai according to the instruction given by Mr. Dai to the staff at Chongqing Yuanjia. Mr. Dai did not consult the Company's Directors before providing the Advance thus the Directors were not able to offer their views on the Advance at the time of provision.

### **Listing Rules Implication**

The Chongqing Supplier is indirectly wholly-owned by 廣州萬創電子有限公司 (Guangzhou Wengchuang Electronics Company Limited\*), which is an owner of 49.0% of Chongqing Yuanjia, an indirect non-wholly owned subsidiary of the Company, therefore a connected person at the subsidiary level.

As Mrs. Dai is the mother of Mr. Dai, who is the beneficial owner of the Chongqing Supplier which is a substantial shareholder of Chongqing Yuanjia, Mrs. Dai is a connected person at the subsidiary level of the Company and the Advance constitutes connected transaction for the Company under the Listing Rules.

### ***The Debt***

The management initially expected the Chongqing Supplier to make the relevant refund upon or shortly after the return of the goods. However, even though management used their best efforts in chasing the Chongqing Supplier, the Chongqing Supplier did not make the relevant refund until April 2020, which inadvertently caused the nature of the payment to have become a financial assistance to a connected person under Chapter 14A of the Listing Rules. The Directors did not realise at the time the change in nature of the payment as the Directors only considered the original intention of the payment, which was for the purchase of goods and was in the ordinary course of business of the Group. As one or more of the applicable percentage ratios (as calculated under Rule 14.07 of the Listing Rules) in respect of the payment are more than 5% but less than 25% and below HK\$10,000,000, the payment is subject to (i) the reporting and announcement requirements under Chapter 14A of the Listing Rules but are exempt from circular and independent shareholder approval requirements and (ii) a discloseable financial assistance as defined under Rule 14.04(1)(e) of the Listing Rules, therefore is subject to the reporting and announcement requirements.

For the deposit to the Chongqing Supplier, the management initially expected the delivery of the relevant products can be made shortly after the deposit. However, after noting that the delivery of the products did not realise in the expected timeline, the management began chasing for repayment of the deposit. Similar to the payment of RMB7.0 million, the deposit made by Chongqing Yuanjia inadvertently changed from being a deposit to being a financial assistance to a connected person under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios (as calculated under Rule 14.07 of the Listing Rules) in respect of the deposit, on an aggregate basis with the payment, are more than 5% but less than 25% but above HK\$10,000,000, the deposit is subject to (i) the reporting and announcement requirements under Chapter 14A of the Listing Rules and circular and independent shareholder approval requirements; (ii) a discloseable financial assistance as defined under Rule 14.04(1)(e) of the Listing Rules, therefore is subject to the reporting and announcement requirements and (iii) an advance to an entity as defined under Rule 13.13 of the Listing Rules, therefore is subject to announcement requirements. However, as disclosed in the announcement dated 29 September 2020 by the Company, the Company has disposed of its 51% interest in Chongqing Yuanjia and Chongqing Yuanjia has ceased to be part of and no longer related to the Group. Furthermore, as all the applicable percentage ratios in respect of the deposit, on a standalone basis, are less than 5% and below HK\$3,000,000, the management did not realise the deposit, which in nature became a financial assistance, had to be aggregated with the payment.

The Company did not announce the Debt as soon as practicable because the Board initially understood the Debt to be governed under the master agreement and did not consider that as Chongqing Yuanjia did not receive the Debt back from the Chongqing Supplier within a short period after the request for repayment, it had in effect become a financial assistance to a connected person at the subsidiary level.

The Board consider that the initial payment of the RMB7.0 million and deposit of RMB2.3 million were conducted on normal commercial terms and in the interest of the Group and shareholders as a whole as they were both for the purchase of mobile phones, which is in the normal business operations of the Group.

## ***The Advance***

For the Advance, as it is less than 5% of the applicable ratios on a standalone basis, it is exempted from disclosure under Chapter 14 of the Listing Rules. Mrs. Dai is also not a close associate of Mr. Dai, and Mr. Dai himself did not inform the Board of such advance being made to Mrs. Dai, the Board were not aware at the earliest instance. Nevertheless, as Mrs. Dai is an associate of Mr. Dai thus is a connected person at the subsidiary level, it does fall under Chapter 14A of the Listing Rules and has disclosed the relevant information in this announcement. However, as one or more of the applicable percentage ratios (as calculated under Rule 14.07 of the Listing Rules) in respect of the Advance, on an aggregate basis with the Debt, are more than 5% but less than 25% but above HK\$10,000,000, the Advance is subject to (i) the reporting and announcement requirements under Chapter 14A of the Listing Rules and circular and independent shareholder approval requirements; (ii) a discloseable financial assistance as defined under Rule 14.04(1)(e) of the Listing Rules, therefore is subject to the reporting and announcement requirements; and (iii) an advance to an entity as defined under Rule 13.13 of the Listing Rules, therefore is subject to announcement requirements.

The Board (including the independent non-executive Directors) acknowledges that as the Advance was not conducted on normal commercial terms, unfair and not reasonable and was not in the interest of the Company, the Advance should have been subject to announcement, reporting, circular and independent shareholders' approval requirements and the Company admits that it has breached the relevant Listing Rules. However, as disclosed in the announcement dated 29 September 2020 by the Company, the Company has disposed of its 51% interest in Chongqing Yuanjia and Chongqing Yuanjia has ceased to be part of the Group.

Up to October 2019, the amount advanced to Mrs. Dai only reached approximately RMB2.1 million (equivalent to approximately HK\$2.3 million). However, upon further advance to Mrs. Dai in November 2019, the total amount advanced to Mrs. Dai reached approximately RMB3.1 million (equivalent to approximately HK\$3.4 million). As the Advance was paid over a long period spanning 14 months, Chongqing Yuanjia did not inform the Company promptly the total amount advanced to Mrs. Dai being over HK\$3,000,000. As such, the Company did not announce the connected transaction as soon as practicable after the total amount advanced to Mrs. Dai became more than HK\$3,000,000.

The Company did not announce the Advance as soon as practicable because Mr. Dai did not inform the Board of such advance. The Company therefore was not aware of such advance until the preparation of its financial statements for the year ended 31 December 2019. The Board acknowledges that the Group may have internal control defects and has already engaged an internal control consultant to review the Group's existing internal control policies.

The management only became aware of this inadvertent mistake during the process of audit of Group's financial results for the year ended 31 December 2019 and has made an announcement as soon as practicable.

The Directors reiterate that both the Debt and the Advance were done based on the instructions by Mr. Dai and that the Directors had no knowledge of them when the respective transactions were performed.

### **Remedial steps to be taken**

The Group currently has in place internal control procedures for its treasury and payment cycles:

- Applications need to be filled in by the person requesting to make a payment and pass to the respective department managers for review;
- The department manager, after reviewing the purposes and amount of such request for payment, would sign on such application and pass the application back to the person making the request;
- The staff is then required to pass the application to the general manager, who reviews, and if thought fit, approve such application for payment;
- The approved application is then passed to the finance department for payment.

Although the Group keeps a list of its connected persons and such lists is circulated to the Group's employees periodically, some of the staff involved in the Group's treasury and payment cycles may not have checked against such list before preparing and approving such payment. The Group also maintains a manual which lists out obligations of the Group as a listed company in procuring compliance for Chapter 13, 14 and 14A of the Listing Rules. However, the management admits that some of its employees may not have reviewed against the manual before processing the relevant payments.

In view of this the Group has engaged an internal control consultant (the “**Internal Control Consultant**”) on 30 July 2020 to review the Group’s main operating subsidiaries existing internal control policies and to provide the steps necessary for the Group to undertake to improve its internal controls. The scope of investigations to be conducted by the Internal Control Consultant include:

- Reviewing the Group’s existing internal control policies regarding notifiable transactions and connected transactions;
- Reviewing relevant approval procedures;
- Reviewing the execution of such procedures by relevant staff;
- Providing training to directors and relevant staff;
- Assist the Board in assessing the Group’s compliance with the Listing Rules and identifying any possible weakness in its controls;
- Assist the Group to establish relevant key control procedures to minimize risk of non-compliance; and
- Review and improve the Group’s treasury related policies and controls.

The Internal Control Consultant has reported its findings of internal control weaknesses on the Group’s payment cycle, with the key findings as follows:

- although some subsidiaries of the Group have implemented policies for processing payments, the policies may not have had the policies in written form;
- some administrative procedures of a subsidiary of the Group, such as the safekeeping of the company, preparation of vouchers, is partly performed by an associate of the Group;
- the senior management assigned by the Group to oversee the operations of Chongqing Yuanjia do not have the approval authority for its payment cycle; and
- although the Group has already designated a staff at each operating subsidiary as the compliance officer of that subsidiary, it would be prudent for the Group to designate one more staff at each operating subsidiary to assist in Listing Rules compliance.



Although some administrative procedures of a subsidiary of the Group is performed by an associate of the Group, which the management considered at the time to be one of the cost saving measures, the Directors are of the view that accuracy of the financials of the Group were not affected as review of the financial information of the subsidiary would be reviewed by management before being used in preparation of the Group's financial statements.

In view of the above, the Company intends to take the following actions to address the internal control weaknesses:

- the Company will prepare a written set of policies for its subsidiaries;
- the Company will expedite in setting up the administrative department of the subsidiary to be independent from the associate, so that future administrative procedures of the subsidiary will be performed by itself;
- as disclosed in the Company's announcement dated 29 September 2020, the Group has disposed all of its interests in Chongqing Yuanjia, thus the Group is no longer responsible for any internal control weaknesses at Chongqing Yuanjia; and
- the management will designate the Group's financial controller, operations controllers and finance manager to assist in Listing Rules compliance.

In addition to the above measures, the Board, in order to enhance the Group's control over its purchase and payment cycles, specified in its policies as to how long the Group would allow its suppliers for refunds and deliveries and if such period becomes overdue, the responsible department would be required to alert senior management, i.e. the finance and senior management team in Hong Kong.

In regards to remediation actions to be taken by the Board for the Company's breach of the relevant Listing Rules, the Board will engage the Internal Control Consultant to provide the necessary training to the Directors and senior managements of the Group for the compliance of the relevant Listing Rules, particularly on notifiable, connected and continuing connected transactions. The Company will also engage a financial adviser which could periodically provide the Directors and senior managements of the Company with information on any updates or amendments of the Listing Rules.

The staff at Chongqing Yuanjia was instructed by the management to follow the internal control procedures and policies of the Group. However, the management was given to understand that the staff responsible for the outgoings of Chongqing Yuanjia did not follow such instruction and had only relied on the instructions given by Mr. Dai.

The management and audit committee admits that Chongqing Yuanjia may have had ineffective internal control procedures. Although the Board considered the risk management and internal control systems of the Company were adequate and effective during the year as previously disclosed in the Company's audit report for the year ended 31 December 2019, the Board had not yet been notified of the internal control deficiencies that led to the Debt and the Advance. Upon realising such deficiencies, the Board immediately required the Company to engage the Internal Control Consultant to perform a review of the Group's internal controls. Nevertheless, the Board has implemented the proposed remediation measures and has enhanced its internal policies, especially with regard to its purchases and payment cycles, and believes the Group's controls are sufficient and effective. In order to rectify the weaknesses identified in the report, and continually improve and to maintain the sufficiency and efficiency of the internal controls of the Group, the Directors will engage an internal control consultant to review the Group's revised internal controls in early 2021 and an update of the review and findings, if any, will be disclosed via another announcement by the Company in due course.

Notwithstanding the above, Chongqing Yuanjia has been disposed of by the Group on 29 September 2020 and is not longer part of the Group.

By order of the Board  
**China Fortune Holdings Limited**  
**Lau Siu Ying**  
*Chairman and Chief Executive Officer*

Hong Kong, 11 December 2020

*As at the date of this announcement, the Board comprises two executive directors, namely Mr. Lau Siu Ying and Mr. Wang Yu; one non-executive director, namely Mr. Hou Zhenyang; and three independent non-executive directors, namely Dr. Law Chun Kwan, Mr. Fok Wai Ming, Eddie and Dr. Lo Wai Shun.*