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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 Limited)*

**(Stock Code: 110)**

### **KEY FINDINGS AND RESULTS OF INTERNAL CONTROL REVIEW**

Reference is made to the statement of disciplinary action published by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 31 October 2023 in relation to a disciplinary action against China Fortune Holdings Limited (the “**Company**”) and a number of its former and current directors for their breaches of the Rule Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”); and to the announcement of the Company (together with its subsidiaries, the “**Group**”) dated 10 November 2023 (the “**Announcement**”) in relation to, among other things, the appointment of Internal Control Adviser to conduct a thorough review of, and make recommendations to improve, the Company’s internal controls and to ensure compliance with Chapters 14 and 14A of the Listing Rules.

Unless otherwise defined, capitalized terms used in this announcement shall have the same meaning as those defined in the Announcement.

\* *For identification purposes only*

## **INTERNAL CONTROL REVIEW**

The Internal Control Adviser has completed its review of the Company’s internal control system in respect of compliance with Chapter 14 and 14A of the Listing Rules. The findings identified in the review and the recommendations of the Internal Control Adviser are summarised as follows:

### **1. Internal Audit Charter and Board practices on internal control of Listing Rules compliance**

#### *Findings*

In April 2021, the management of the Group (the “**Management**”) adopted an “Internal Audit Charter — Listing Rules compliance” — (the “**Internal Audit Charter**”) and a set of written policies for monitoring its internal control in relation to the Listing Rules compliance. The Internal Control Adviser noted that (a) this Internal Audit Charter and the internal control policies of Listing Rules were not formally authorised by the board of directors of the Company (the “**Board**”) and the audit committee of the Company since its adoption in 2021; (b) from the Board meeting minutes, there is a review of internal control report but no documentation of discussion among the Board members on the annual review of the internal control report and follow up of significant issues; (c) the Internal Audit Charter required the Management to provide an annual training plan for the Board’s consideration but there is no plan prepared accordingly. Also, there is no formal training provided to the key management team of the subsidiaries of the Company on the application of these policies and update on the knowledge of Listing Rules compliance; and (d) there is no review by the Company on the feedback of the understanding on the applicability of such policies by the subsidiaries of the Company.

#### *Recommendation*

It was recommended that:

- the Internal Audit Charter and the Listing Rules compliance policies should be updated by the Management as to its completeness and applicability by reference to the latest development of Listing Rules and the Group’s latest situation and practices of Management.
- the updated Internal Audit Charter and the Listing Rules compliance policies should be formally approved by the Board in the upcoming Board meeting annually.

- appropriate training should be conducted in respect of the policies approved. For details, please refer to point number 12.

### ***Implementation***

The Management has revised an updated version of the Internal Audit Charter and the following Listing Rules compliance policies with all the suggestions in the recommendation:

- Procedures for handling notifiable transactions (須予公布的交易內控合規政策)
- Procedures for handling connected transactions (關連交易內控合規政策)
- Procedures for handling advances to an entity and financial assistance and guarantees to affiliated companies of the Company (財務資助及貸款內控合規政策)

The revised Internal Audit Charter and the above revised Listing Rules compliance policies have been approved and adopted by the Board in a Board meeting held on 27 February 2024.

Recommendation related to appropriate training is discussed in point number 12.

## **2. Written policy of listing rules compliance on notifiable transactions**

### ***Finding***

The Company has established a written policy “Procedures for handling notifiable transactions” (for compliance of Chapter 14 of the Listing Rules). However, it was noted that such policy requires only transaction over RMB2,000,000 should be reported by the subsidiaries of the Company. Given the latest financial position of the Group (and hence its related size test threshold numbers) is currently at relatively low level in value, there is a risk that some discloseable transactions may not be identified and reported timely due to its amount is less than the prescribed reporting threshold if this threshold is used.

### ***Recommendation***

It was recommended that the Company should remove the RMB2,000,000 threshold and to require the subsidiaries to report all transactions from time to time to ensure all possible discloseable transaction could be identified timely. The threshold amount could be review annually by considering the prevailing risk from time to time in accordance with the Company’s situation.

### ***Implementation***

The RMB2,000,000 threshold has been removed from the revised version of the “Procedures for handling notifiable transactions” and all the subsidiaries of the Company are required to report all transactions from time to time with immediate effect.

### **3. Written policy of listing rules compliance on connected transactions**

#### ***Finding***

The Company has established a written policy “Procedures for handling connected transactions” (for compliance of Chapter 14A of the Listing Rules). However, the policy requires an annual confirmation should be obtained from each identified connected person to confirm their respective associates, but no written confirmation was obtained from these connected persons.

#### ***Recommendation***

It was recommended that the Company should obtain written confirmation, on an annual basis, from all relevant connected persons to confirm, to the best their knowledge, of their associates, and to confirm there is no connected transactions between the Group and them or their associates, or all are disclosed and properly reported.

#### ***Implementation***

In February 2024, the Management sent to all connected persons identified in the latest connected parties list an annual written confirmation (for the year ended 31 December 2023) in accordance with the above recommendation.

All annual confirmations were received and confirmed as to the correctness of their associates and also no connected transactions were noted from the confirmation received.

### **4. Written policy of listing rules compliance on advance to entities and financial assistance and guarantees to affiliated companies**

#### ***Finding***

The Company has established a written policy “Procedures for handling advances to an entity and financial assistance and guarantees to affiliated companies of the Company” for compliance of Chapter 13 of the Listing Rules. However, it was noted that such policy requires only transaction over RMB2,000,000 should be reported by the

subsidiaries of the Company. Given the latest financial position of the Group (and hence its size test threshold numbers) is currently at relatively low in value, there is a risk that some discloseable transactions may not be identified and reported timely due to its amount is less than the prescribed reporting threshold if this threshold is used.

### ***Recommendation***

It was recommended that the Company should remove the RMB2,000,000 threshold and to require the Company and its subsidiaries to report all transactions from time to time to ensure all possible discloseable transaction of these categories could be identified timely. The threshold amount could be review annually by considering the prevailing risk from time to time.

### ***Implementation***

The RMB2,000,000 threshold has been removed from the revised version of the “Procedures for handling advances to an entity and financial assistance and guarantees to affiliated companies of the Company (財務資助及貸款內控合規政策)” and all the subsidiaries of the Company are required to report all transactions from time to time with immediate effect.

## **5. Written policy on the rectification procedures on any subsequent identified unreported discloseable transactions**

### ***Finding***

It was noted that the Company has established a set of written policies for Listing Rules compliance in relation to notifiable transaction/connected transaction and advance to entities/financial assistance/guarantee.

However, it was noted that such policies mainly focus on setting up the controls on identifying, evaluating and reporting any transaction required compliance procedures. There is no specific written measures dealing with the steps on reporting and handling of any subsequently identified unreported discloseable transaction.

### ***Recommendation***

It was recommended that the Company should establish a written policy to deal with the steps on reporting and handling of subsequently identified unreported discloseable transaction, which should include:

- the reporting channel (both internal and external)
- the evaluation process of the impact and Board involvement

- the format and information to be reported
- the available resources for internal and external advice
- regulatory compliance and remedial steps

### ***Implementation***

A new written policy “Rectification procedure for unreported discloseable transaction (內控合規政策—未被報告須予披露交易的整改程序)” has been prepared in accordance with the recommendation above and was approved and adopted by the Board in a Board meeting held on 27 February 2024.

## **6. Internal control policy on acquisition and disposal of equity shares**

### ***Finding***

It was noted that the Company has an “Internal control policy on acquisition and disposal of equity shares” to assist the Board and Management in sale and purchase of equity interest in subsidiaries or associates of the Group in providing certain guidance on evaluation and execution on such transaction. The Management had circulated such policy to the Board and the Management of subsidiaries of the Company for their follow up.

However, it was noted that such policy is too general in nature by just setting principles without specific guidance and steps for Management to follow. Moreover, the scope of this policy is duplicated with some of the other Listing Rules compliance policies adopted by the Company in April 2021 mentioned in point number 1.

### ***Recommendation***

It was recommended that this policy should be incorporated into relevant sections of the other existing policies on the Listing Rules compliance to avoid overburden of excessive policy and unclear responsibilities during execution.

### ***Implementation***

The existing “Internal Control Policy on acquisition and disposal of equity shares” has been abolished by the Board in a Board meeting held on 27 February 2024. Relevant applicable sections in this policy were confirmed to have been included in other revised Listing Rules compliance policies, where applicable.

## 7. Connected parties list

### *Finding*

It was noted that the Company has maintained “Connected parties list” (the “**Connected Parties Lists**”) according to the “Internal control policy on connected transaction” to assist the Management to identify any potential connected person on its daily business.

However, it was noted that there are two existing Connected Parties Lists originated from different sources (but with slightly different contents) used by the Management continuously. The Management uses different list for different control purposes.

Moreover, it was also noted that both lists mainly included the connected persons who are directors or substantial shareholders of the Company or subsidiaries of the Company, but not extended to all their respective associates as defined under the Listing Rules.

### *Recommendation*

It was recommended that:

- the Company should combine the two existing Connected Parties Lists and consolidate all information into one document and distribute to the Board and Management.
- the Company should maintain one updated Connected Parties List that includes all connected persons and his/her associates as defined under Listing Rules. Such list should also be updated regularly and distributed to its Board and Management once updated.

Such list should also be confirmed by all the connected persons in written as to its correctness and completeness at least annually.

### *Implementation*

The Management has combined the existing two Connected Parties Lists with all relevant information into one Connected Parties List in February 2024. In February 2024, such updated list has been circulated to all the Board members and the Managements for Listing Rules compliance reference.

For confirmation by all the connected persons in written as to the correctness and completeness at least annually, please refer to the findings in point number 3.

## 8. Monthly updates distributed to the Board

### *Finding*

It was noted that the Management circulated through email to the Board regularly the monthly update (the “**Monthly Update**”) as required by the Corporate Governance Code under Appendix C1 of the Listing Rules (the “**Corporate Governance Code**”). However, with regard to the financial information provided in the Monthly Update, there is no breakdown of certain key consolidated statement of financial position items such as “deposit, prepayment and advances” and “loans to third parties”.

### *Recommendation*

It was recommended that the Company’s Monthly Update to be circulated to the Board should also include certain breakdown of key financial numbers, in particular with, deposits, prepayment and other receivable, other payables, etc.

### *Implementation*

The Management has updated the latest Monthly Update for December 2023 with breakdown/explanation of the relevant key financial numbers as suggested by the recommendation and circulated to the Board members for review in February 2024.

## 9. Threshold table on the size tests of notifiable/connected transactions

### *Finding*

It was noted that the company secretary of the Company (the “**Company Secretary**”) prepared the size tests percentage ratio computation table whenever there is any potential notifiable or connected transaction to be conducted or identified by the Management. Moreover, the Company Secretary also revised the applicable numbers used in calculating the percentage ratio for different categories of transactions as defined in the Listing Rules and inform the Management after the publish of the annual results the updated threshold numbers.

However, it was noted that the relevant threshold numbers were not usually be updated after the publish of the interim results when various relevant percentage ratios would be updated.

### *Recommendation*

It was recommended that the Company Secretary should also update the size test table threshold numbers every time after the interim result publication and circulate to the Board and the Management as soon as possible.

### ***Implementation***

The latest size test table threshold numbers have been updated with the relevant latest interim financial information for the six months ended 30 June 2023.

Moreover, there is a new “remark” added by the Management in the size test table footnote to remind the Management to update the threshold numbers every time after the interim/final result publication.

## **10. Set up of system for continuing connected transaction**

### ***Finding***

It was noted that the Company has a policy for listing rules compliance on connected transactions and it stipulated certain detective controls for identifying any unreported connected transaction.

It was noted that there is no continuing connected transaction existing currently, but the Company has no standardized format of reporting for capturing and recording continuing connected transaction for ongoing compliance tracking purposes.

### ***Recommendation***

It was recommended the Company should set up a standardized format of connected transaction ledger to keep track on the details of continuing connected transaction that may occurred in the future.

Such ledger should include:

- details of the transactions including cumulative amount, terms and transaction time
- details of counter parties and relationship with the Group
- ongoing compliance requirements

### ***Implementation***

A sample continuing connected transaction ledger (in the form of excel table summary) has been set up by the Management with details as the suggestions in the recommendation.

Such table will be used by the Management in the future for recording of any continuing connected transaction for keeping track the compliance requirements.

## 11. Process to identify and discover connected transactions with prospective business partners

### *Finding*

It was noted that the Group will perform certain background and identity checks to the customers/vendors and prospective business partners before the trading relationship to identify any possible transaction with a connected person. Such checks include company search by external agent and the search report with identity of the shareholders and directors of the business partners will be copied to the respective Management and the Company Secretary for review and record.

However, it was noted that there was no standardized procedures for any annual review check for any subsequent changes of the business partners' shareholder or management.

### *Recommendation*

It was recommended that the Company should perform periodic review, at least once a year, to update the identity of all existing customers and vendors, to ensure there is no subsequent changes of shareholdings or directorships of the relevant parties which will render such parties becoming a connected person or an associate of a connected person.

There should be regular annual training to key executive of the business unit of the subsidiaries of the Company and keep them sufficient knowledge and awareness of the Listing Rules in monitoring the daily operation. Such plan should also be considered in the annual training plan discussed in point number 12.

### *Implementation*

The Management performed an annual review in January and February 2024 and updated the identity of shareholders and directors (“**Identified Parties**”) of its all existing customers and vendors for the year ended 31 December 2023. It was noted that none of these Identified Parties were connected persons as included in the latest Connected Parties List.

The revised “Procedures for handling connected transactions (關連交易內控合規政策)” has also included a requirement to perform a periodic review of the of identity of the Identified Parties and was approved and adopted by the Board on 27 February 2024.

A training for the key executives of the business unit of the subsidiaries of the Company for updating sufficient knowledge and awareness of the Listing Rules in monitoring the daily operation has been included in the annual training plan (the “**Annual Training Plan**”) and scheduled to be conducted in May 2024. Please refer to point number 12 for details of the Annual Training Plan.

## **12. Training policy on Listing Rules compliance**

### ***Finding***

It was noted that the Company has established a “Training plan for listing compliance” specifying the policy for new director’s induction programme and ongoing training programme for directors and senior management in relation to Listing Rules compliance. The policy requires an annual training plan should be provided to the Board for approval in December of every year with budget and content of trainings.

However, it was noted that such proposal was not prepared for the last financial year. Moreover, there are no regular update by the Company Secretary to the Board on the latest rules changes and prevailing practices of the Stock Exchange in relation to the Listing Rules compliance.

### ***Recommendation***

It was recommended that an annual training programme in relation to the Listing Rules compliance should be provided to and approved by the Board every year in the Board meeting.

The content should include:

- annual training plan for Directors and senior management
- training plan for relevant key management at subsidiary level
- annual budget, service provider and timetable for such training

It was also recommended that the Company Secretary should update all relevant major changes and prevailing practices in relation to listing rules compliance for at least the last six months and report to the Board in any of the Board meeting.

### ***Implementation***

The Management has proposed an Annual Training Plan in relation to the Listing Rules compliance (for Directors, senior management of the Company, key management at subsidiary level) as suggested in the recommendation and such programme has been approved and adopted by the Board on 27 February 2024. The Company confirmed to deliver the respective training as scheduled in the plan.

The Company Secretary has prepared a summary of information from various sources relating to recent listing rules regulatory update and distributed to the Board members for their reference in February 2024.

## **13. Internal audit functions**

### ***Finding***

The Company has a set of internal control policies and procedural manuals governing daily operations and payments procedures. However, apart from the report received from the finance managers of the Company who stationed in some key operating subsidiaries of the Company to perform check and balances on behalf of the head office, it was noted that independent regular check was not carried out regularly by the head office or in the subsidiaries office physically on the internal control. Moreover, these finance managers did not receive any formal training on the Listing Rules compliance except with the compliance checklist received by the Company Secretary.

### ***Recommendation***

It was recommended that:

- the headquarter of the Group should periodically send staff to review independently at the subsidiaries on the workdone and findings of the finance managers reported and note any improvement on the internal control
- external internal control consultant could be engaged to perform regular review on the Listing Rules compliance in these subsidiaries
- formal training should be conducted to these PRC subsidiaries finance managers for Listing Rules compliance and such plan should be included in the Annual Training Plan

### ***Implementation***

The Management prepared an internal audit plan for the year ending 31 December 2024 and included a review procedure for headquarter to send staff to review independently at the subsidiaries on the workdone and findings of the finance managers reported and note any improvement on the internal control.

Such plan was adopted by the Board on 27 February 2024.

A formal training for finance managers of PRC subsidiaries (being key management at subsidiary level) for Listing Rules compliance has been included in the Annual Training Plan.

## **14. Board practices and additional resources available to Internal Control Issues**

### ***Finding***

It was noted that the Board has conducted the necessary physical meeting as required under the Corporate Governance Code to review and approve significant corporate matters like annual and interim result announcement, business review and compliance issues.

However, it is noted that the Board's minutes do not have sufficient description on the details of matters discussed and the supporting and rationale on arriving at the decision-making. Moreover, apart from the review of the annual internal control report submitted by Management, there is no designated agenda for the Board meeting to discuss and review some ongoing internal control issues like resources availability, Listing Rules update, policy and procedures update, training proposal, etc.

### ***Recommendation***

It was recommended that:

apart from the annual internal control review report, the Board should allocate more time resources to discuss other related matters on internal controls of the Group and this could be done in any of the regular physical meetings not dealing with the annual/interim results announcements, so that more time and resources could be available for the Board to handle these issues more effectively. A Board calendar with tentative dates of Board meetings and key agenda could be proposed by Management and be distributed to the Board members in advance every calendar year for better planning purpose.

- agenda of the meeting should include the following:
  - follow up of prior year weakness of internal control and any red-flag or enquiry from regulators
  - proposal for upcoming year annual internal control review with particular attention on Listing Rules compliance
  - annual budget and proposal of:
    - trainings for the Board and senior management
    - training for management team in the subsidiaries
    - update of existing policies and procedures
    - update of Listing Rules and relevant practice of the Stock Exchange
- minutes of Board meeting and other committees meeting should be sufficiently documented to describe the matters discussed by the members and the process of decision making with supporting documents
- audit committee of the Company should assign at least one specific meeting annually to review and monitor the Management's ongoing Listing Rules compliance issues

### ***Implementation***

The Management has prepared a Board calendar for regular Board meetings, audit committee meetings and annual general meeting for the year ending 31 December 2024 with proposed agenda suggested by the recommendation and distributed to the Board members for better planning and allocation of time on matters related to internal control.

The Company Secretary confirmed that all future minutes of the Board meeting will be sufficiently documented as suggested by the recommendation.

## **VIEWS OF THE BOARD**

The Board confirms that all the above-mentioned recommendations of the Internal Control Adviser have been implemented and the Internal Control Adviser had performed follow-up reviews on the enhanced internal control measures adopted by the Group. The Board is of the view that (i) the above key internal control findings have been remediated and the related risks have been managed to a reasonably acceptable level; and (ii) the remedial actions and improvement measures implemented by the Group are adequate and sufficient to address the above key internal control findings.

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

Hong Kong, 20 March 2024

*As at the date of this announcement, the Board comprises three executive directors, namely Mr. Lau Siu Ying (Chairman), Mr. Wang Yu and Mr. Li Jianwu; and three independent non-executive directors, namely Dr. Law Chun Kwan, Dr. Lo Wai Shun and Mr. Leung Wai Hung.*