



2018

Third Quarterly Report

GRAND PEACE GROUP HOLDINGS LIMITED

福澤集團控股有限公司*

(Incorporated in Bermuda with limited liability)

Stock Code : 08108

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This report, for which the directors of the Company (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

THIRD QUARTERLY RESULTS (UNAUDITED)

The board of directors (the “**Board**”) of Grand Peace Group Holdings Limited (the “**Company**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “**Group**”) for the three months and nine months ended 30 September 2018 together with the comparative figures.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months and nine months ended 30 September 2018

	Notes	Unaudited			
		Three months ended 30 September		Nine months ended 30 September	
		2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Turnover	2	22,859	21,850	70,787	83,889
Cost of sales		(11,331)	(12,206)	(34,571)	(54,381)
Gross profit		11,528	9,644	36,216	29,508
Other revenue		60	2,010	270	2,970
Other net (loss) or gain		(598)	(1,798)	5	(1,548)
Fair value change of financial assets at fair value through profit or loss		103	8,388	(581)	7,291
Loss on disposal of a subsidiary		–	–	(220)	–
Loss on disposal of an associate		–	–	–	(376)
Selling and distribution costs		(1,269)	(1,703)	(3,879)	(6,828)
Administrative expenses		(7,038)	(8,155)	(32,675)	(33,494)
Profit/(Loss) from operations		2,786	8,386	(864)	(2,477)
Finance costs		(10,168)	(7,509)	(28,157)	(22,893)
Share of result of associates		–	–	–	339
Share of result of a joint venture		(292)	(272)	(886)	(838)
(Loss)/Profit before taxation		(7,674)	605	(29,907)	(25,869)
Taxation	3	1,471	(752)	(1)	(2,005)
Loss for the period		(6,203)	(147)	(29,908)	(27,874)
Attributable to:					
Owners of the Company		(6,203)	122	(29,908)	(26,340)
Non-controlling interests		–	(269)	–	(1,534)
		(6,203)	(147)	(29,908)	(27,874)

	Note	Unaudited			
		Three months ended		Nine months ended	
		30 September		30 September	
		2018	2017	2018	2017
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss for the period		(6,203)	(147)	(29,908)	(27,874)
Other comprehensive (loss)/income for the period, net of tax					
Exchange differences arising during the period		(4,010)	4,160	(3,806)	5,442
Change in fair value of financial assets through other comprehensive income		78	–	1,150	–
		(3,932)	4,160	(2,656)	5,442
Other comprehensive (loss)/profit for the period		(10,135)	4,013	(32,564)	(22,432)
Total comprehensive (loss)/profit attributable to:					
Owners of the Company		(10,135)	4,282	(32,564)	(20,898)
Non-controlling interests		–	(269)	–	(1,534)
		(10,135)	4,013	(32,564)	(22,432)
		HK cents	HK cents	HK cents	HK cents
(Loss)/Earning per share – basic and diluted	5	(0.67)	0.01	(3.24)	(2.85)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Contributed surplus	Fair value through other comprehensive income reserve	Exchange reserve	Accumulated losses	Subtotal	Non-controlling interest	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2016 (Audited) and 1 January 2017 (Unaudited)	461,360	368,178	–	(9,516)	(342,035)	477,987	(20,695)	457,292
Loss for the period	–	–	–	–	(26,340)	(26,340)	(1,534)	(27,874)
Other comprehensive income for the period	–	–	–	5,442	–	5,442	–	5,442
Total comprehensive income/(expense) for the period	–	–	–	5,442	(26,340)	(20,898)	(1,534)	(22,432)
Acquisition of a subsidiary	–	–	–	–	–	–	63	63
At 30 September 2017 (Unaudited)	461,360	368,178	–	(4,074)	(368,375)	457,089	(22,166)	434,923
At 31 December 2017 (Audited) and 1 January 2018 (Unaudited)	461,360	368,178	43	(2,455)	(409,771)	417,355	24	417,379
Loss for the period	–	–	–	–	(29,908)	(29,908)	–	(29,908)
Other comprehensive income for the period								
– Exchange differences arising during the period	–	–	–	(3,806)	–	(3,806)	–	(3,806)
– Change in fair value of financial assets through other comprehensive income	–	–	1,150	–	–	1,150	–	1,150
Total comprehensive Income/(expense) for the period	–	–	1,150	(3,806)	(29,908)	(32,564)	–	(32,564)
Disposal of a subsidiary	–	–	–	–	–	–	(24)	(24)
At 30 September 2018 (Unaudited)	461,360	368,178	1,193	(6,261)	(439,679)	384,791	–	384,791

Notes:

1. BASIS OF PREPARATION

Except for the adoption of the new and revised Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants, (“**HKICPA**”), which are effective for the Group’s financial year beginning on 1 January 2018, the accounting policies adopted in preparing the unaudited condensed consolidated financial statements for the nine months ended 30 September 2018 are consistent with those adopted in the annual report of the Company for the year ended 31 December 2017.

The Group’s unaudited third quarterly results have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the applicable disclosures requirements required by the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited (the “**GEM Listing Rules**”) and the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

These unaudited condensed consolidated financial statements have been prepared under the historical cost convention except for certain financial assets and liabilities.

2. TURNOVER

The Group’s turnover represents the net invoiced value of funeral products sold and funeral services provided for, and the interest income earned from loan financing business in Hong Kong after allowances for returns and trade discounts, during the period.

An analysis of the Group’s turnover is as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2018 HK\$’000 (Unaudited)	2017 HK\$’000 (Unaudited)	2018 HK\$’000 (Unaudited)	2017 HK\$’000 (Unaudited)
Provision of funeral services and sale of funeral related products	18,274	21,058	62,849	78,104
Loan financing business	4,585	792	7,938	5,785
	22,859	21,850	70,787	83,889

3. TAXATION

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods. PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% for both periods.

No provision for PRC Enterprise Income Tax has been made for both periods as the Group have no assessable profits arising in the PRC.

	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Current taxation – Hong Kong	1	2,005
Current taxation – PRC	–	–
Deferred taxation	–	–
Tax expense for the period	1	2,005

4. INTERIM DIVIDEND

No interim dividend has been paid or declared by the Company for the nine months ended 30 September 2018 (nine months ended 30 September 2017: Nil).

5. LOSS PER SHARE

The calculation of basic loss per share from operations is based on the loss for the Period attributable to owners of the Company of approximately HK\$29,908,000 (2017: loss approximately HK\$26,340,000) and the weighted average 922,719,512 (2017: 922,719,512 ordinary shares) ordinary shares in issue during the period.

There was no diluting event existing during the nine months ended 30 September 2018 and 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

The Group's principal businesses for the nine months ended 30 September 2018 (the "Period") are funeral business, loan financing business and elderly home business. The Group's total unaudited operating revenue during the Period amounted to approximately HK\$70,787,000, representing a decrease of 15.62% as compared to the same period last year. Such decrease was mainly due to the fact that no operating revenue has been generated during the Period after the expiration of the right (which was granted by the Hong Kong Special Administrative Region) to operate, manage and maintain the public funeral parlour entitled "Grand Peace Funeral Parlour" at Cheong Hang Road, Hung Hom, Hong Kong on 31 March 2017. The Group's total unaudited loss during the Period amounted to approximately HK\$29,908,000.

Funeral Business

During the Period, the Group recorded total unaudited revenue of approximately HK\$62,849,000 from the provision of funeral-related services and the sale of funeral-related products, representing a decrease of 19.53% as compared to the same period last year of approximately HK\$78,104,000, and an unaudited gross profit of approximately HK\$28,277,000, representing an increase of 19.17% as compared to the same period last year of approximately HK\$23,729,000. The decrease of revenue was due to the fact that no operating revenue has been recorded from Grand Peace Funeral Parlour during the Period as disclosed above. The increase of gross profit was mainly due to the decrease in the cost of funeral business operations.

For the nine months ended 30 September 2018, the Group recorded an unaudited total revenue of approximately HK\$62,849,000 from the provision of funeral-related services and the sale of funeral-related products in the Kowloon Funeral Parlour (the "KFP"), representing an increase of 7.11% as compared to the same period last year of approximately HK\$58,677,000, gross profit of approximately HK\$28,277,000, representing an increase of 27.05% as compared to the same period last year of approximately HK\$22,256,000, and segment profit[#] of approximately HK\$8,441,000, representing a slight decrease of 1.26% as compared to the same period last year of approximately HK\$8,549,000. The Group will continue to enhance promotion and advertising investment as well as employee training to raise the utilisation of the KFP, and endeavour to control costs and expenses.

#: Segment profit represents the profit earned by each segment without allocation of unallocated corporate expense, finance costs and income tax expense.

For the funeral business in Mainland China, the Group has invested resources in developing the Huidong County Huaqiao Cemetery. The infrastructure work of the Huidong cemetery (including the road landscaping and greening in the cemetery area) has been completed and the cemetery has commenced trial operation. During the Period, the Group recorded no unaudited revenue from the provision of funeral-related services and sale of funeral-related products in the Huidong cemetery. The unaudited net loss was approximately HK\$3,424,000, representing an increase of approximately 14.78% as compared to the unaudited net loss for the same period last year of approximately HK\$2,983,000. Due to the Huidong cemetery's low recognition among customers, the Group will continue to enhance promotion and advertising investment to stimulate the marketing and sales of the Huidong cemetery.

Loan Financing Business

Revenue from the loan financing business was mainly generated by a finance company indirectly wholly-owned by the Company, which holds a valid Money Lender License under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong) qualifying for providing loan financing services to clients.

During the Period, the unaudited total interest income of the Group derived from providing loan financing business was approximately HK\$7,938,000, representing an increase of approximately 37.22% as compared to the same period last year of approximately HK\$5,785,000 and segment profit was approximately HK\$6,574,000, representing an increase of approximately 75.03% as compared to the same period last year of approximately HK\$3,756,000, which was mainly due to the improvement of the loan financing business.

Elderly Home Business

惠州市福澤頤養服務有限公司, a joint venture company (the "**JV Company**") established in the PRC by Most Fame (China) Limited ("**Most Fame**"), an indirect wholly-owned subsidiary of the Company, together with an independent third party, is principally engaged in the construction, management and operation of a social elderly nursing home in Huidong County, Huizhou, Guangdong Province, the PRC.

The JV Company will enable the JV parties to develop the business of operation of the social elderly nursing home in Guangdong Province, which will attract Hong Kong elderly. We believe that the proposed social elderly nursing home will bring synergistic effect to the cemetery operated by the Group in Huidong.

Since the JV Company is still in the initial stage and is not widely recognised by the market, no income has been generated from the elderly nursing home business during the Period.

PROSPECTS

The Group will remain focusing on its funeral business in Tai Kok Tsui, Kowloon and Huidong, China.

The Group will also continue to seek and identify other businesses that are conducive to bringing more robust profits, and form new growth drivers through acquiring and developing different businesses.

We believe that the strategy of diversification will add value to owners' equity and disperse business risks.

LIQUIDITY AND FINANCIAL RESOURCES

All the Group's funding and treasury activities are basically managed and controlled by the senior management. There is no significant change in respect of treasury and financing policies from the information disclosed in the Group's latest annual report.

As at 30 September 2018, cash and bank balances of the Group was approximately HK\$3,657,000. (as at 30 September 2017: approximately HK\$27,895,000).

As at 30 September 2018, the total borrowing of the Group amounted to approximately HK\$199,928,000 (2017: approximately HK\$174,929,000), representing unsecured bonds of HK\$199,928,000 at the effective interest rate ranged from 4.64% per annum to 27.27% per annum.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the share option scheme adopted on 9 December 2010, during the Period, the Company or any of its subsidiaries was not a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

As at 30 September 2018, none of the Directors or chief executives of the Company held any share options of the company.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the nine months ended 30 September 2018, the Company had adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had also made specific enquiries of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors.

DISCLOSURE OF INTEREST AS PER REGISTERS KEPT PURSUANT TO THE SECURITIES FUTURES ORDINANCE (“THE SFO”)

(a) **Directors’ and chief executives’ interests and short positions in shares, underlying shares and debentures**

As at 30 September 2018, none of the Directors and chief executive of the Company was, under Divisions 7 & 8 of Part XV of the SFO, taken to be interested or deemed to have any other interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) that were required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or were required to be notified to the Company and the Stock Exchange pursuant to the GEM Listing Rules.

(b) **Substantial shareholders’ and other persons’ interests and short positions in shares and underlying shares of the company**

So far as were known to the Directors or chief executive of the Company, as at 30 September 2018, no person (other than the Directors and chief executive of the Company as disclosed above) had interests and/or short positions of 5% or more of the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

CHARGE ON GROUP’S ASSETS

The Group did not have any charge on its assets as at 30 September 2018 (2017: The Group did not have any charge on its assets).

FOREIGN CURRENCY RISK

As most of the Group's transactions are denominated in Renminbi and Hong Kong dollars, the Directors believe that the Group's exposure to exchange fluctuation was immaterial and the Group has not implemented any formal hedging or other alternative policies to deal with such exposure.

CONTINGENT LIABILITIES

The Group had no contingent liabilities at the end of reporting period.

CORPORATE GOVERNANCE PRACTICES

Mr. Li Ge resigned as an Executive Director, chairman and chief executive of the Company on 19 March 2018, and the responsibilities of the chairman and chief executive of the Company have been taken up by the other members of the Board. The Board will continuously review and improve the corporate governance practices and standards of the Group to ensure that business activities and decision-making processes are regulated in a proper and prudent manner.

NUMBER OF INDEPENDENT NON-EXECUTIVE DIRECTORS

According to Rules 5.05(1) and 5.05(A) of the Rules Governing the Listing of Securities on the GEM (the "**GEM Listing Rules**") of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), the Board must include at least three Independent Non-executive Directors and it is required to appoint Independent Non-executive Directors representing at least one-third of the Board.

Pursuant to Rule 5.28 of the GEM Listing Rules, the Audit Committee must comprise a minimum of three members, the majority of which must be Independent Non-executive Directors. The Audit Committee must be chaired by an Independent Non-executive Director.

As the majority of the votes cast against Resolutions Nos. 2(a), 2(b) and 2(e), Resolutions 2(a), 2(b) and 2(e) have not been passed by the Shareholders of the Company at the 2018 Annual General Meeting held on 9 May 2018 (the "**2018 AGM**"). As a result, Mr. Tam Yiu Cheung ("**Mr. Tam**"), Mr. Liu Qing Chen ("**Mr. Liu**") and Ms. Tan Xiao Yan ("**Ms. Tan**") cease to be Independent Non-executive Directors of the Company after the 2018 AGM. Consequently, Mr. Tam ceased to be the chairman and a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Mr. Liu and Ms. Tan also ceased to be members of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company.

The Company has tried its best endeavors to comply with the GEM Listing Rules given that time is required to identify suitable candidates to be Independent Non-executive Directors. The following Directors have been appointed on 1 June 2018:

- (i) Mr. Chin Kwan Lam, Raymond has been appointed as an Independent Non-executive Director, a member and the chairman of the Audit Committee, a member of each of the Remuneration Committee and the Nomination Committee;
- (ii) Mr. Huen Ho Yin has been appointed as an Independent Non-executive Director, a member of each of the Audit Committee and the Nomination Committee, and a member and the chairman of the Remuneration Committee.

On 1 August 2018, Mr. Huang Hongbin was appointed as an Independent Non-executive Director, a member of each of the Audit Committee and the Remuneration Committee and a member and the chairman of the Nomination Committee.

For more details, please refer to the announcements of the Company published on 9 May 2018, 1 June 2018 and 1 August 2018.

Save as during the period from 9 May 2018 to 31 July 2018, the Company has complied with Rules 5.05(1), 5.05(A) and 5.28 of the GEM Listing Rules for the nine months ended 30 September 2018.

SHARE OPTION SCHEME

On 9 December 2010, the company adopted a share option scheme (the “**Share Option Scheme**”). Pursuant to the Share Option Scheme, the Board, may for a consideration of HK\$1.00, offer to selected eligible persons (as defined in the circular of the Company dated 23 November 2010) to subscribe for shares of the Company as incentive or rewards for their contribution to the Group. The subscription price will be determined by the Board in its absolute discretion, in any event, shall not be less than the higher of (i) the nominal value for the time being of each share of the Company, (ii) the average closing price of the shares of the Company as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the date on which the relevant option is granted and (iii) the closing price of the shares of the Company as stated in the Stock Exchange’s daily quotation sheet on the date on which the relevant option is granted.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme and other schemes of the Company may not, in aggregate, exceed 30% of the issued share capital of the Company from time to time which have been duly allotted and issued. The total number of shares issued and to be issued upon exercise of the options granted (including both exercised and outstanding options) in any 12-month period to each eligible person shall not exceed 1% of the shares in issue. If any further grant of options to such eligible person which would result in the shares issued or to be issued upon exercise of all options granted or to be granted to such eligible person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of further grant would exceed 1% of the shares in issue, such grant must be separately approved by shareholders in general meeting, with such eligible person and its associates abstaining from voting. A shareholders' circular containing the information required by the GEM Listing Rules shall be despatched to the shareholders. An option may be exercised in whole or in part at any time during the Option Period (as defined in the circular of them Company dated 23 November 2010).

The maximum number of shares available for issue upon the exercise of the options under the Share Option Scheme is 686,782 shares, representing 10% of 6,867,822 shares, the total issued shares of the Company at the date on which the Share Option Scheme was adopted (as adjusted to reflect the share consolidation effective on 29 August 2013, 10 June 2014 and 11 August 2016 respectively and the Share Sub-division effective on 18 April 2017).

The Share Option Scheme became effective for a period of 10 years commencing on 9 December 2010 (the date on which the Share Option Scheme was adopted).

The details and major provisions of the Share Option Scheme were set out in the circular of the Company dated 23 November 2010.

The Company has not grant any options under the Share Option Scheme for the nine months ended 30 September 2018.

As at the date of this report, none of the Directors or chief executives of the Company held any share options of the Company.

PURCHASES, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

For the nine months ended 30 September 2018, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

COMPETING INTEREST

None of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) or their respective associates had any interest in any business which competed or might compete with the business of the Group for the nine months ended 30 September 2018.

AUDIT COMMITTEE

The Audit Committee has reviewed the Group's third quarterly results announcement and report for the nine months ended 30 September 2018 and provided advices and recommendations to the Board. After the review of the financial statements, the members of the Audit Committee were of the opinion that such statements comply with the applicable accounting standards, the GEM Listing Rules and other applicable laws and regulations and that adequate disclosure had been made.

By Order of the Board
Grand Peace Group Holdings Limited
Sun, Miguel
Executive Director

Hong Kong, 9 November 2018

As at the date of this report, the Board comprises Mr. Sun, Miguel, Mr. He Weiqing and Mr. Wong Wai Leung as Executive Directors, and Mr. Chin Kwan Lam, Raymond, Mr. Huen Ho Yin and Mr. Huang Hongbin as Independent Non-executive Directors.