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)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

The board of directors (the "Board") of China Fortune Holdings Limited (the "Company") announces the audited results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2017, together with the comparative figures as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	**2017** **HK$'000**	2016 HK$'000
Revenue	*4*	**7,436**	110,638
Cost of sales		**(7,147)**	(108,801)
Gross profit		**289**	1,837
Other income		**1,039**	1,235
Other gains and losses		**(38,245)**	(6,116)
Selling and distribution costs		**(400)**	(2,645)
Administrative expenses		**(14,718)**	(15,242)
Finance costs	*5*	**(1,208)**	(1,278)
Impairment loss recognised in respect of mining right	*9*	**(174,589)**	(84,240)
Share of results of associates		**(6)**	(905)
Loss before income tax	*7*	**(227,838)**	(107,354)
Income tax credit	*6*	**41,116**	21,059
Loss for the year		**(186,722)**	(86,295)

* *For identification purpose only*

	Notes	**2017**	2016
		HK$'000	*HK$'000*
Other comprehensive income that may be subsequently transferred to profit or loss			
Exchange differences arising on translation from functional currency to presentation currency		**6,258**	(12,247)
Total comprehensive income for the year		**(180,464)**	(98,542)
Loss for the year attributable to:			
Owners of the Company		**(111,714)**	(49,807)
Non-controlling interests		**(75,008)**	(36,488)
		(186,722)	(86,295)
Total comprehensive income for the year attributable to:			
Owners of the Company		**(105,255)**	(58,710)
Non-controlling interests		**(75,209)**	(39,832)
		(180,464)	(98,542)
Loss per share			
Basic	*8*	**(12.25) cents**	(5.99) cents
Diluted	*8*	**N/A**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	**2017**	2016
		HK$'000	*HK$'000*
Non-current Assets			
Plant and equipment		**42**	9,049
Mining right	*9*	**–**	168,516
Investments in associates		**1,145**	1,151
Available-for-sale investments		**2,449**	4,903
Club memberships		**888**	872
		4,524	184,491
Current Assets			
Inventories		**2,098**	1,197
Trade and other receivables	*10*	**12,641**	40,256
Amount due from an associate		**2,382**	–
Amount due from a non-controlling shareholder of a subsidiary		**3,616**	3,345
Held-for-trading investments		**1,251**	1,254
Cash and cash equivalents		**18,364**	16,000
		40,352	62,052
Current Liabilities			
Trade and other payables	*11*	**25,804**	37,863
Amount due to a related party		**165**	1,296
Amounts due to non-controlling shareholders of subsidiaries		**3,671**	3,252
Tax payables		**6,409**	6,272
Other borrowings	*12*	**14,878**	–
		50,927	48,683
Net Current (Liabilities)/Assets		**(10,575)**	13,369
Total Assets less Current Liabilities		**(6,051)**	197,860

	Notes	**2017**	2016
		HK$'000	*HK$'000*
Capital and Reserves			
Share capital		**91,778**	83,206
Reserves		**(60,369)**	23,457
Equity attributable to owners of the Company		**31,409**	106,663
Non-controlling interests		**(37,460)**	37,749
		(6,051)	144,412
Non-current Liabilities			
Other borrowings	*12*	**–**	13,762
Deferred tax liabilities		**–**	39,686
		–	53,448
		(6,051)	197,860

Notes:

1. CORPORATE INFORMATION

The Company is an exempted company with limited liability incorporated in Bermuda under the Companies Act 1981 of Bermuda (as amended). The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of the Group are 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 minerals.

2. BASIS OF PREPARATION

(a) Statement of compliance

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, these financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

(b) Basis of measurement and going concern

These financial statements have been prepared on the historical cost basis except that certain financial instruments are measured at fair values, as explained in the accounting policies set out below.

During the year, the Group has incurred a loss attributable to the owners of the Company of approximately HK$111,714,000 for the year ended 31 December 2017 and as at 31 December 2017 the Group had net current liabilities of approximately HK$10,575,000. These conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern and therefore, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business.

In preparing the consolidated financial statements, the directors have carefully considered to the current and anticipated future liquidity of the Group. The directors have prepared cash flow forecasts for the period up to June 2019 after taking into account of the measures below.

In order to strengthen the Group's capital base and liquidity in foreseeable future, the directors of the Company have taken the following measures:

– Other than the extension of the principal amount of the other borrowings as stated in Note 12, the directors are in the process of extending the corresponding accumulated interest payable of HK$12,022,000 to December 2020

– The directors have adopted a prudent approach in reducing the Group's operating and administrative expenses

Based on the Group's cash flow forecasts of the Company, the directors are of the opinion that the Group will be able to meet its financial obligations as they fall due for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing consolidated financial statements.

Notwithstanding the above, uncertainties exist as to whether the Group will be able to successfully implement the measures as mentioned above that may cast significant doubt on the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new/revised HKFRSs – effective on 1 January 2017

The Group has adopted the following amendments to HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant to its operations and effective for annual periods beginning on or after 1 January 2017.

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKFRS 12, Disclosure of Interest in Other Entities

None of the above amendments to HKFRSs has had a significant financial effect on these financial statements.

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's consolidated financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKFRS 1, First Time Adoption of Hong Kong Financial Reporting Standards[1]
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKAS 28 Investments in Associates and Joint Ventures[1]
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions[1]
HKFRS 9	Financial Instruments[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
HKFRS 15	Revenue from Contracts with Customers[1]
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)[1]
HK(IFRIC) Int 22	Foreign Currency Transactions and Advance Consideration[1]
HKFRS 16	Leases[2]
HK(IFRIC) Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 10 and HKAS 28	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

[1] *Effective for annual periods beginning on or after 1 January 2018*

[2] *Effective for annual periods beginning on or after 1 January 2019*

[3] *The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted.*

4. SEGMENT INFORMATION AND REVENUE

(a) Reportable segments and reconciliation of reportable segment revenue, profit or loss, assets and liabilities

The Group determines its operating segments based on the reports reviewed by the chief operating decision-makers (the "CODM") that are used to make strategic decisions.

During the year ended 31 December 2017, 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:

- Mobile phone business
- Mining business

Corporate expenses, corporate assets and corporate liabilities are not allocated to the reportable segments as they are not included in the measure of the segments' profit or loss, segments' assets and segments' liabilities that are used by the CODM for assessment of segment performance.

For the year ended 31 December 2017

	Mobile phone business *HK$'000*	**Mining business** *HK$'000*	**Total** *HK$'000*
Reportable segment revenue from external customers	**7,436**	**–**	**7,436**
Reportable segment loss	**(28,815)**	**(186,993)**	**(215,808)**
Depreciation and amortisation	**3**	**310**	**313**
Loss on disposal of plant and equipment	**37**	**–**	**37**
Impairment loss recognised in respect of plant and equipment	**–**	**8,965**	**8,965**
Impairment loss recognised in respect of mining right	**–**	**174,589**	**174,589**
Impairment loss recognised in respect of prepayments paid to suppliers	**24,903**	**–**	**24,903**
Impairment loss recognised in respect of trade and other receivables	**1,170**	**457**	**1,627**
Recovery of write down of inventories	**(516)**	**–**	**(516)**
Reportable segment assets	**29,902**	**5,181**	**35,083**
Reportable segment liabilities	**(3,936)**	**(39,247)**	**(43,183)**

	2017
	HK$'000
Revenue	
Reportable segment revenue and consolidated revenue	**7,436**
Loss before income tax	
Reportable segment loss	**(215,808)**
Fair value loss on held-for-trading investments	**(102)**
Impairment loss recognised in respect of available-for-sale investments	**(2,614)**
Interest income	**156**
Miscellaneous income	**783**
Motor vehicle expenses	**(144)**
Staff costs (including directors' remunerations)	**(5,592)**
Rent	**(636)**
Corporate expenses	**(2,667)**
Share of results of associates	**(6)**
Finance costs	**(1,208)**
Consolidated loss before income tax	**(227,838)**
Assets	
Reportable segment assets	**35,083**
Unallocated corporate assets	
– Investments in associates	**1,145**
– Available-for-sale investments	**2,449**
– Held-for-trading investments	**1,251**
– Club memberships	**888**
– Cash and cash equivalents	**3,508**
– Others	**552**
Consolidated total assets	**44,876**
Liabilities	
Reportable segment liabilities	**43,183**
Unallocated corporate liabilities	
– Tax payables	**4,574**
– Amount due to director, Mr. LAU	**165**
– Others	**3,005**
Consolidated total liabilities	**50,927**

For the year ended 31 December 2016

	Mobile phone business *HK$'000*	Mining business *HK$'000*	Total *HK$'000*
Reportable segment revenue from external customers	110,638	–	110,638
Reportable segment loss	(5,138)	(86,799)	(91,937)
Depreciation and amortisation	6	315	321
Impairment loss recognised in respect of mining right	–	84,240	84,240
Impairment loss recognised in respect of trade and other receivables	798	–	798
Write-back of trade and other payables	(159)	–	(159)
Recovery of write down of inventories	(286)	–	(286)
Reversal of write-back of rebate payables	20	–	20
Reportable segment assets	54,634	182,602	237,236
Reportable segment liabilities	(3,333)	(74,431)	(77,764)

	2016
	HK$'000
Revenue	
Reportable segment revenue and consolidated revenue	110,638
Loss before income tax	
Reportable segment loss	(91,937)
Fair value loss on held-for-trading investments	(423)
Interest income	25
Miscellaneous income	769
Impairment loss recognised in respect of available-for-sale investments	(6,340)
Impairment loss recognised in respect of club memberships	(210)
Lapse of unlisted warrants	1,568
Staff costs (including directors' remunerations)	(5,658)
Corporate expenses	(2,965)
Share of results of associates	(905)
Finance costs	(1,278)
Consolidated loss before income tax	(107,354)
Assets	
Reportable segment assets	237,236
Unallocated corporate assets	
– Investments in associates	1,151
– Available-for-sale investments	4,903
– Held-for-trading investments	1,254
– Club memberships	872
– Cash and cash equivalents	582
– Others	545
Consolidated total assets	246,543
Liabilities	
Reportable segment liabilities	77,764
Unallocated corporate liabilities	
– Tax payables	4,574
– Receipt in advance	15,599
– Amount due to director, Mr. LAU	1,296
– Others	2,898
Consolidated total liabilities	102,131

(b) Geographical information

During 2017 and 2016, the Group's operations and non-current assets are situated in the PRC in which all of its revenue was derived.

(c) Information about major customer

In 2017, revenues from two (2016: two) customers in the mobile phone business of the Group amounted to HK$5,692,000 and HK$983,000 (2016: HK$65,220,000 and HK$35,011,000) respectively, each of which represent 77% and 13% of the Group's revenue.

(d) Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable or received for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

5. FINANCE COSTS

	2017	2016
	HK$'000	*HK$'000*
Interests on other borrowings wholly repayable within five years	**1,208**	1,278

6. INCOME TAX CREDIT

Fortune (Shanghai) International Trading Co., Ltd ("Fortune Shanghai"), 上海遠嘉國際貿易有限公司 ("Shanghai Yuanjia"), 珠海市雷鳴達通訊設備有限公司 ("Zhuhai Reminda"), 黃石鍶發礦業有限公司 ("Sifa Mining") and 浙江澳英信息科技有限公司 ("Zhejiang Aoying") were established in the PRC and subject to the Enterprises Income Tax ("EIT") rate of 25% (2016: 25%).

No provision for income tax has been made as the Group did not have any estimated assessable profits during the year (2016: Nil).

The amount of income tax credit in the consolidated statement of comprehensive income represented deferred tax arising from reversal of temporary differences.

The income tax credit for the year can be reconciled to the loss before income tax per the consolidated statement of comprehensive income as follows:

	2017	2016
	HK$'000	*HK$'000*
Loss before income tax	**(227,838)**	(107,354)
Tax credit at the domestic income tax rate of 25% (2016: 25%) *(Note)*	**(56,960)**	(26,838)
Tax effect of share of results of associates	**1**	149
Tax effect of expenses not deductible for tax purpose	**9,695**	1,240
Tax effect of income not taxable for tax purpose	**(972)**	(292)
Tax effect of tax losses not recognised and utilisation of tax losses and deductible temporary differences	**6,205**	3,659
Effect of different tax rates of group entities operating in other jurisdictions	**915**	1,023
Income tax credit	**(41,116)**	(21,059)

At the end of reporting period, the Group had estimated unused tax losses of approximately HK$166,364,000 (2016: HK$166,456,000) available for offset against future profits. The tax losses are subject to the final assessment by the tax authorities in the respective jurisdictions where the tax losses arising from. No deferred tax asset has been recognised in respect of the estimated unused tax losses due to unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately HK$32,071,000 (2016: HK$37,876,000) that may be carried forward for a period of five years from their respective year of origination. The remaining unrecognised tax losses may be carried forward indefinitely.

At the end of reporting period, the Group also had deductible temporary differences of approximately HK$8,808,000 (2016: HK$8,949,000). No deferred tax asset has been recognised in relation to these deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Note: The domestic income tax rate represents the EIT rate where the Group's operations are substantially based.

7. LOSS BEFORE INCOME TAX

	2017	2016
	HK$'000	*HK$'000*
Loss before income tax is arriving at		
after charging:		
Auditor's remuneration	**970**	949
Cost of inventories recognised as expenses	**7,147**	108,801
Depreciation of plant and equipment	**331**	343
Staff costs		
– directors' emoluments	**4,253**	4,520
– salaries and allowances for other staffs	**4,199**	4,995
– retirement benefit scheme contribution (excluding directors)	**198**	488
	8,650	10,003
and after crediting:		
Service income from provision of logistics and promotion services	**44**	110
Interest income	**156**	25
Recovery of write down of inventories	**516**	286
Government grants	**–**	23

8. LOSS PER SHARE

The calculation of loss per share for the year is based on the loss for the year attributable to owners of the Company of HK$111,714,000 (2016: loss of HK$49,807,000) and the weighted average number of 911,673,645 shares in issue during the year (2016: 832,063,442 shares in issue).

No diluted loss per share is presented as the effect of all potential ordinary shares is anti-dilutive for the years ended 31 December 2017 and 2016.

9. MINING RIGHT

	HK$'000
COST	
At 1 January 2016	437,920
Exchange adjustments	(29,440)
At 31 December 2016	408,480
Exchange adjustments	33,120
At 31 December 2017	441,600
ACCUMULATED AMORTISATION AND IMPAIRMENT	
At 1 January 2016	171,578
Exchange adjustments	(15,854)
Impairment for the year	84,240
At 31 December 2016	239,964
Exchange adjustments	27,047
Impairment for the year	174,589
At 31 December 2017	441,600
CARRYING VALUE	
At 31 December 2017	–
At 31 December 2016	168,516

The mining right represents the right of Sifa Mining to conduct mining activities in Huangshi City, Hubei Province, the PRC. The mining right is amortised using the units of production method based on the proven and probable mineral reserves.

Mining exploitation/operating permit

After the expiration of a 5-year mining exploitation permit on 25 September 2012, Sifa Mining obtained twice a renewed mining operating permit for 2 years from the Ministry of Land and Resources of the PRC (中華人民共和國國土資源部) ("MLR"), under which Sifa Mining was allowed to carry out exploration activities only, but not exploitation activities. The latest 2-year mining operating permit was expired on 25 September 2016. Since then, the Group has been preparing for the application of the mining operating permit.

However, on 21 December 2017, the Department of Land and Resources of Hubei Province of the People's Republic of China (the "DLR") issued an announcement (the "DLR Announcement") in respect of the deadline of application for renewal of the expired mining operating permit. The DLR instructed the owners of the expired mining operating permits as identified in the DLR Announcement has to furnish the application procedures for the renewal before 28 February 2018. If the owners fail to do so, they are required to de-register the mining operating permits before 31 March 2018 by themselves or the DLR will de-register the permits instead. The Group was not able to furnish the application before the deadline. The Group, through its lawyer, submitted a letter on 8 February 2018 to the DLR for the clarification of the Group's situation on whether the Group was allowed to extend the renewal application deadline or submit a new application for the mining operating permit in the future. Up to the date of this announcement, the Group has not yet received the reply from the DLR.

The directors are of the opinion that there is material uncertainty on whether the Group will be successful in the application for the mining operating permit because of the DLR Announcement. The directors have factored this into their assessment of the recoverable amount of the Group's mining right and related plant and equipment, and the carrying amount of the related deferred tax liabilities as at 31 December 2017, and on the assumption that the Group cannot renew the permit, provided a full impairment of the mining right of HK$174,589,000 and related plant and equipment of HK$8,965,000 and derecognised the related deferred tax liabilities of HK$41,116,000 in profit or loss during the year.

The directors would like to reiterate that the DLR has the discretion of approving or even accepting the application or not. If the DLR grants the mining operating permit which allows the Group to carry out exploitation activities, the impairment loss on the mining right and related plant and equipment, and the adjustment on the deferred tax liabilities provided for the year might be reversed.

At 31 December 2017, 100,000 tons (2016: 100,000 tons) minerals included in the underlying reserves were pledged to the other borrowings.

10. TRADE AND OTHER RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Trade receivables	**14,148**	18,049
Less: accumulated allowance	**(14,135)**	(17,998)
	13	51
Value-added-tax receivables	**379**	412
Prepayments to suppliers	**36,641**	34,042
Other receivables and deposits	**7,847**	11,781
Less: accumulated allowance	**(32,239)**	(6,030)
Trade and other receivables	**12,641**	40,256

The Group generally requests for full prepayment from its trade customers but it also allows certain trade customers a credit period of 30 to 90 days. The following is an aged analysis of trade receivables (net of allowance) presented based on the invoice date at the end of reporting period:

	2017	2016
	HK$'000	*HK$'000*
0 to 30 days	**3**	5
31 to 90 days	**9**	12
91 to 365 days	**1**	34
	13	51

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines its credit limits. Limits attributed to customers are reviewed periodically. Majority of the trade receivables that are neither past due nor impaired have no default payment history and good credit rating under the Group's internal credit assessment.

11. TRADE AND OTHER PAYABLES

The following is an aged analysis of the trade payables presented based on the invoice date at the end of reporting period:

	2017	2016
	HK$'000	*HK$'000*
Trade payables:		
0 to 30 days	**–**	82
31 to 90 days	**–**	–
Over 90 days	**204**	180
	204	262
Prepayments from customers	**1,221**	125
Receipt in advance	**–**	15,599
Other payables and accruals	**24,379**	21,877
	25,804	37,863

12. OTHER BORROWINGS

	2017	2016
	HK$'000	*HK$'000*
Secured other borrowings –		
repayable within one year	**14,878**	–
repayable after one year	**–**	13,762
	14,878	13,762

At the end of reporting period, the Group's other borrowings were pledged by 100,000 (2016: 100,000) tons of minerals reserve, carrying at a fixed annual interest rate of 8.47% (2016: 8.47%) per annum and repayable within one year (2016: within two years).

In March 2018, the lender agreed to the repayment date of the other borrowings extend to 31 December 2020.

At 31 December 2017 and 2016, the Group did not have any banking facilities.

EXTRACT OF THE INDEPENDENT AUDITOR'S REPORT

The auditor expressed a disclaimer of opinion in the independent auditor's report on the consolidated financial statements of the Group for the year ended 31 December 2017. The basis for disclaimer of opinion is extracted as follow:

Disclaimer of Opinion

We do not express an opinion on the consolidated financial statements of the Group.

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 aspects, 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. The mining activities related assets and liability

The Group's mining operating permit was expired on 25 September 2016 and up to the date of the Group's 2016 annual report, 30 March 2017, the Group was preparing for the application of a mining operating permit. The directors were of the opinion that the Group would be successful in the application for the mining operating permit. The directors had factored this into their assessment of the recoverable amount of the Group's mining right and related plant and equipment of approximately HK$168,516,000 and HK$8,952,000 respectively, and the carrying amount of the related deferred tax liabilities of approximately HK$39,686,000, as at 31 December 2016 ("the mining activities related assets and liability"). The relevant government authorities had the discretion of approving the application or not. As there was no sufficient appropriate audit evidence for us to assess the likelihood and timing of the Group in obtaining a mining operating permit, we were not able to satisfy ourselves of the appropriateness of the assumptions used by the directors in assessing the recoverable amounts and carrying amounts of the mining activities related assets and liability as at 31 December 2016, whether any further or reversal of impairment on the mining activities related assets should be recognised, and whether any further adjustment to the mining activities related liability should be made. Accordingly, and taking into account of other limitation on our scope of work on prepayments to suppliers, we did not express an opinion on the consolidated financial statements for the year ended 31 December 2016.

As detailed in Note 17 to the consolidated financial statements, on 21 December 2017, the Department of Land and Resources of Hubei Province of the People's Republic of China (the "DLR") issued an announcement (the "DLR Announcement") in respect of the deadline of application for renewal of the expired mining operating permit. The Group was not able to furnish the application before the deadline. The Group, through its lawyer, submitted a letter on 8 February 2018 to the DLR for the clarification of the Group's situation on whether the Group is allowed to extend the renewal application deadline or submit a new application for the mining operating permit in the future. Upto the date of this report, the Group has not yet received the reply from the DLR.

The directors are of the opinion that there is a material uncertainty on whether the Group will be successful in the application for the mining operating permit because of the DLR Announcement. The directors have factored this into their assessment of the recoverable amount of the Group's mining right and related plant and equipment of approximately HK$174,589,000 and HK$8,965,000 respectively, and the carrying amount of the related deferred tax liabilities of approximately HK$41,116,000, as at 31 December 2017, and on the assumption that the Group cannot renew the permit, provided a full impairment of the mining activities related assets and derecognised the related deferred tax liabilities with the corresponding amounts charged to profit or loss for the year ended 31 December 2017.

The DLR has the discretion of accepting the Group's delayed submission of application for renewing the mining operating permit or a new submission of the application of mining operating permit. And if the Group's submission is accepted, the DLR has the discretion of approving the application. As there is no sufficient appropriate audit evidence for us to assess the likelihood of and timing when the Group would be granted the mining operating permit, we are not able to satisfy ourselves of the appropriateness of the assumptions used by the directors in assessing the recoverable amounts and carrying amounts of the mining activities related assets and liability as at 31 December 2017, whether any impairment loss on the mining activities related assets should be reversed, and whether any adjustment made to the deferred tax liabilities should be reversed.

Any adjustments to the carrying amounts of assets and liability as described above would have consequential effect on the Group's financial position as at 31 December 2017 and of its financial performance for the year then ended, the elements making up the consolidation cash flow statement and the related disclosures thereof in the consolidated financial statements.

2. Prepayments to suppliers

Our auditor's report dated 30 March 2017 relating to the Group's consolidated financial statements for the year ended 31 December 2016 was modified, as certain aspects of our scope of work were limited including we were unable to obtain the financial information regarding two suppliers to assess the recoverability of the Group's prepayments to them amounted to HK$33,688,000 at 31 December 2016. The prepayments formed part of the Group's trade and other receivables and no impairment loss thereon was recognised for the year ended 31 December 2016. Therefore, we were unable to determine whether any adjustment to the trade and other receivables as at 31 December 2016 was necessary and whether any impairment loss thereon should be recognised for the year ended 31 December 2016.

As noted in Note 22 to the consolidated financial statements, impairment loss of HK$24,903,000 on the aforesaid prepayments was recognised in profit or loss for the year ended 31 December 2017. However, due to the limitation on our work relating to the prepayments as at 31 December 2016 as stated above, any adjustment to the carrying amount of the prepayments as at 31 December 2016 would have consequential impact on the amount of impairment loss recognised for the year ended 31 December 2017. As a result, we are unable to satisfy ourselves as to whether the amount of impairment loss was appropriately determined.

3. Going concern basis adopted in preparation of the consolidated financial statements

As described in Note 3(b) to the consolidated financial statements, the Group reported a loss attributable to the owners of the Company of approximately HK$111,714,000 for the year ended 31 December 2017 and as at 31 December 2017 the Group had net current liabilities of approximately HK$10,575,000. These conditions indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

As stated in Note 3(b) to the consolidated financial statements, the Group is pursuing certain measures to improve the liquidity and financial position. The validity of the going concern assumption based on which the consolidated financial statements are prepared is dependent on the successful implementation of these measures, including the successful negotiation with the lender to postpone the settlement of interest payable of HK$12,022,000.

However, the directors is unable to provide us evidence showing the status of the negotiation and the information based on which they consider that the lender would be willing to postpone the settlement. There was no alternative audit procedures that we can perform to obtain sufficient appropriate audit evidence for us to assess the likelihood that the lender would extend the repayment date to December 2020. Accordingly, we are unable to satisfy ourselves that whether it is appropriate to prepare the consolidated financial statements for the year ended 31 December 2017 on a going concern basis.

Should the Group fail to implement the above mentioned measures, it might not be able to continue to operate as a going concern, adjustments would have to be made to write down the carrying amounts of the Group's assets to their net realisable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities. The effects of these adjustments have not been reflected in the consolidated financial statements.

FINAL DIVIDEND

No dividend has been proposed since the end of reporting period (2016 Nil).

REVIEW AND OUTLOOK

Financial Review

Our turnover in mobile phone business decreased in the year. Moreover, there were impairment loss recognised in respect of prepayments paid to suppliers, leading to an increased loss of HK$24.9 million incurred in this business segment, as compared to a segment loss of HK$5.1 million in last year. Owing to the re-assessment on the valuation of mining right, an impairment loss on mining right of HK$174.6 million and an impairment loss on related plant and equipment of HK$9.0 million were recognised in the year, with details set out in note 9 on pages 15 and 16 of this announcement. By offsetting with a HK$41.1 million deferred tax credit associated with this mining right impairment, the net effect of this impairment to the financial result in this year was approximately HK$142.5 million. In aggregate, the Group incurred a loss of HK$186.7 million in this year, as compared to a loss of HK$86.3 million in last year.

The Group recorded a decrease in the consolidated revenue from HK$110.6 million in last year to HK$7.4 million in this year. The gross profit amounted to HK$0.3 million, a decrease when compared to the last year of HK$1.8 million. The gross margin percentage during the year was 3.9% which was higher than the last year of 1.7% due to the higher gross margin achieved in the mobile phone trading business in this year. Other income was HK$1.0 million in this year when compared to HK$1.2 million last year, which was maintained at a similar level. The other gains and losses in the year consisted of an impairment loss recognised in respect of available-for-sale investments amounted to HK$2.6 million, an impairment loss recognised in respect of plant and equipment amounting to HK$9.0 million and an impairment loss recognised in respect of prepayments paid to suppliers amounted to HK$24.9 million.

The selling and distribution costs amounted to HK$0.4 million which decreased as compared to HK$2.6 million of last year. It was mainly because the staff costs and rental expenses decreased during this year. The administrative expenses amounted to HK$14.7 million when compared to the last year of HK$15.2 million, which was maintained at a similar level.

As far as the mobile phone retail chain and wholesale business in Zhuhai was concerned, the revenue achieved during the year amounted to HK$0.7 million as compared with last year of HK$4.3 million. Owing to the fierce competitive business environment this retail chain facing, the Group continued to share a loss from it during the year. As the performance of the associates was unpromising so far since these associates were invested by the Group, the Group shared net losses of approximately HK$6 thousand from the results of the associates during the year as compared to the net loss of HK$0.9 million in last year.

The finance costs was HK$1.2 million this year when compared to HK$1.3 million last year, which was maintained at a similar level.

The net asset value of the Group attributable to owners of the Company as at 31 December 2017 amounted to HK$31.4 million or HK$0.03 per share when compared to HK$106.7 million or HK$0.13 per share as at 31 December 2016. The basic loss per share was 12.25 Hong Kong cents as compared to the basic loss per share of 5.99 Hong Kong cents in last year.

As at 31 December 2017, the Group's aggregate other borrowings amounted to HK$14.9 million when compared to HK$13.8 million as at 31 December 2016, which was maintained at a similar level.

The total cash and cash equivalents amounted to HK$18.4 million as at 31 December 2017 without any deposit pledged to banks. The Group is financed by a combination of its equity capital, cash flow generated from its operation and other borrowings. During the year, there was no material change in the funding and treasury policy of the Group. The Group considers there is no material potential currency exposure as the majority of its revenue and expenses are derived and incurred all in Renminbi in the PRC. It is the treasury policy of the Group to manage its foreign currency exposure whenever its financial impact is material to the Group.

The inventories of the Group as at 31 December 2017 amounted to HK$2.1 million, when compared to HK$1.2 million as at 31 December 2016. The inventory turnover period was 69 days in this year when compared to 5 days of last year. The Group will continue to apply strict policy in inventory control in the future.

The amount of trade and other receivables as at 31 December 2017 was HK$12.6 million, when compared to HK$40.3 million as at 31 December 2016. The decrease was mainly due to the impairment loss of HK$24.9 million for the year.

As at 31 December 2017, the Group had in total 15 employees as compared to 38 employees as at 31 December 2016. Employees were remunerated according to the nature of their job duties and market trend. The Group provided staff welfare and fund contribution to its employees in accordance with the prevailing regulations in the PRC and Hong Kong. There was no material change in the remuneration policy, bonus scheme and share option scheme during the year. The Group has a share option scheme under which the Company may grant share options to the participants, including directors and employees, to subscribe for shares of the Company.

OPERATIONAL REVIEW

Market Overview

According to the statistics released by the Ministry of Industry and Information Technology of the People's Republic of China ("MII"), there were more than 1.4 billion subscribers to mobile phone services in the PRC as at the end of 2017. While there are continuing intense competitions among the major mobile phone manufacturers in the PRC, they are trying to cut the distribution layers by directly supplying to the provincial distributors and leading retailers with a view to increase their profitability. Because of this, leading vendors have developed multi-channel distribution models which include "national distribution", "provincial distribution", "direct to retail" and "direct to operator".

On the other hand, mobile carriers are key participants in the mobile phone industry chain. The restructuring of mobile carriers in 2009 and the issuance of 3G and 4G licenses have led to more intense competition among the mobile carriers. By cooperating with retailers, especially large mobile telecommunication chain stores, the mobile carriers can benefit from the retailers' in-depth understanding of customer behaviors and spending preferences. Through such cooperation, the customers will experience more professional, convenient and integrated customer services. Thus, large mobile telecommunications chain stores are expected to become the main sales channel for the mobile carriers for their bundled mobile phones.

Business Review

Mobile Phone Business

The Group was involved in the business of trading, wholesale and retail of mobile phones and telecom equipments in China. Although there was growth in the mobile phone market, the competition in the mobile phone retail market was very keen and the Group's performance in this area had been affected.

Customers focus is expected to gradually shift from the functionality of mobile phone to the shopping experience. Customers will normally require services such as function presentations, digital phone books synchronization and pre-installing software, etc, in purchasing a mobile phone. In the 3G & 4G era, the convergence of mobile telecommunications and the Internet also led to rapid development of value-added business which requires the retail channels to advance from a pure sales platform to an integrated service platform. In this regard, the large mobile telecommunication chain stores have advantages.

Mining

We commenced developing a new mining site exploitation system in our Strontium mining site since 2010. After the expiration of a 5-year mining operating permit on 25 September 2012, Sifa Mining obtained a renewed mining operating permit for 2 years (the "2-year Permit 2012-2014") from the Ministry of Land and Resources of the PRC（中華人民共和國國土資源部）("MLR"), under which Sifa Mining was allowed to carry out exploration activities only, but not exploitation activities. The 2-year Permit 2012-2014 was expired on 25 September 2014.

On 27 April 2015, a mining operating permit was granted by MLR for a term of 2 years from 25 September 2014 to 25 September 2016 under which a restriction was added that no exploitation activities were allowed but only exploration activities. Such restriction imposed on the renewed mining permit was basically the same as the previous mining permit which was approved by MLR in 2012 whilst the application for mining exploitation permit is a continuing process.

The Board has come to the attention that the Department of Land and Resources of Hubei Province of the People's Republic of China (the "DLR") issued an announcement (the "DLR Announcement") published on 29 December 2017 in respect of the deadline of application for renewal of the expired mining operating permit. In the DLR Announcement, the DLR instructed the owners of the expired mining operating permits to furnish the application procedures for the renewal before 28 February 2018. If the owners fail to do so, they are responsible to de-register the mining operating permits before 31 March 2018 by themselves or the DLR will de-register the permits instead. The Group was not be able to furnish the application before the deadline and therefore, instructed the lawyer to clarify with the DLR the Group's situation on whether the Group is allowed to submit a new application for the mining operating permit in future. Up to the date of this announcement, the Group has not yet received the reply from the DLR.

The Directors are of the opinion that there is material uncertainty on whether the Group will be able to make a new application for the mining operating permit because of the DLR Announcement. Also, high capital investment is to be involved for the new application and the reversal of the industry downturn is still unpreticable. The Directors have factored these into their assessment of the recoverable amount of the Group's mining right and related plant and equipment, and the carrying amount of the related deferred tax liabilities as at 31 December 2017, and provided a full impairment of the mining right of HK$174,589,000 and related plant and equipment of HK$8,965,000 and derecognised all the related deferred tax liabilities of HK$41,116,000 in the profit or loss during the year.

Prospects and Outlook

The continued economic growth in the PRC is fuelled by a high internal consumption. As the world's biggest handset market, there were more than 1.4 billion handset subscribers in the PRC with an increase of around 95.6 million subscribers in 2017. There were around 1 billion 4G users among the total subscribers, and forecasted to increase much further in the near future. On the other hand, there were more than 1.1 billion mobile Internet users which implies that there are huge business opportunities in both mobile application and mobile commerce. Since the Group has been in the related mobile phone industry for decades, big data, mobile phone operating system and mobile internet would be surely the key business areas that the Group is interested in. Blockchain technology is another area that the Group is pursuing. The Group is actively looking for further opportunities which will further enhance the shareholders' value.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

CORPORATE GOVERNANCE

Compliance with the Corporate Governance Code

The Company has complied with the Corporate Governance Code ("the Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except that:

1. Provision A.2.1 of the Code stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual but Mr. Lau Siu Ying currently assumes both roles of the Chairman and the Chief Executive Officer of the Company. Provision A.4 of the Code states that all directors should be subject to re-election at regular intervals. However, Mr. Lau Siu Ying, being the Chairman of the Board, does not need to retire by rotation. Mr. Lau Siu Ying has been in charge of the overall management of the Company since its incorporation. As a result, although he does not need to retire by rotation and assumes both roles of the Chairman and the Chief Executive Officer of the Company, the Board considers that such arrangement at the current stage of development of the Group can facilitate the execution of its business strategies and maximise the effectiveness of its operations. Nevertheless, through the supervision from the Board including the Independent Non-executive Directors, the interests of the shareholders should be adequately and fairly considered.

2. All Non-executive Directors of the Company are not appointed for a specific term as stipulated under the provision A.4.1 of the Code but are subject to retirement by rotation in accordance with the Company's Bye-laws. In accordance with the relevant provisions in the Bye-laws of the Company, if the appointment of Directors is made by the Board, the Directors so appointed must stand for election by the shareholders at the first annual general meeting following their appointments and all Directors, except the Chairman, must stand for re-election by the shareholders by rotation.

AUDIT COMMITTEE

The Company has formulated written terms of reference for the Audit Committee in accordance with the requirements of the Listing Rules. As at the date of this announcement, the Audit Committee comprises three Independent Non-executive Directors, Mr. Chang Wing Seng, Victor (Chairman of the Audit Committee), Dr. Law Chun Kwan and Mr. Lam Man Kit.

The primary responsibilities of the Audit Committee include reviewing the reporting of financial and other information to the shareholders, the system of internal controls, risk management and the effectiveness and objectivity of the audit process. The Audit Committee also provides an important link between the Board and the auditors of the Company in matters coming within the scope of its terms of reference and keeps under review the independence and objectivity of the auditors. The Audit Committee has reviewed and approved this announcement.

PUBLICATION OF THE RESULTS ON THE STOCK EXCHANGE'S WEBSITE

All information required by paragraph 45(1) to 45(8) of Appendix 16 to the Listing Rules will be published on the website of the Stock Exchange and the Company's website http://www.fortunetele.com.

SCOPE OF WORK OF BDO LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in this preliminary announcement have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagement issued by the HKICPA and consequently no assurance has been expressed by BDO Limited on this preliminary announcement.

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

Hong Kong, 29 March 2018

As at the date of this announcement, the Board of Directors of China Fortune Holdings Limited comprises three Executive Directors, Mr. Lau Siu Ying, Mr. Luo Xi Zhi and Mr. Wang Yu; and three Independent Non-executive Directors, Mr. Chang Wing Seng, Victor, Dr. Law Chun Kwan and Mr. Lam Man Kit.