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)

AUDITED ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

Reference is made to the announcement of China Fortune Holdings Limited (the "Company", together with its subsidiaries, the "Group") dated 31 March 2020 in relation to the unaudited annual results of the Group for the year ended 31 December 2019 (the "Unaudited Annual Results Announcement").

As certain changes have been made to the unaudited financial information of the Group for the year ended 31 December 2019 as contained in the Unaudited Annual Results Announcement, the differences between the unaudited financial information and the audited financial information contained in this announcement are set out in the section headed "Material differences between Unaudited and Audited Annual Results" in this announcement. Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Unaudited Annual Results Announcement.

AUDITED ANNUAL RESULTS

The Board is pleased to announce that the Group's auditor, BDO Limited, has completed its audit of the Group's consolidated financial statements for the year ended 31 December 2019 in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. The audited annual results for the year ended 31 December 2019 were reviewed by the Audit Committee and were approved by the Board both on 17 July 2020, details of which are set out below:

* *For identification purpose only*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Revenue	4	**108,455**	216,104
Cost of sales		**(107,444)**	(213,966)
Gross profit		**1,011**	2,138
Other income		**506**	917
Other gains and losses	5	**(16,367)**	22,984
Selling and distribution costs		**(20)**	(11)
Administrative expenses		**(17,266)**	(14,928)
Finance costs	6	**(605)**	–
Share of results of associates		**–**	(647)
(Loss)/profit before income tax	8	**(32,741)**	10,453
Income tax expense	7	**(35)**	(148)
(Loss)/profit for the year		**(32,776)**	10,305
Other comprehensive income that may be subsequently transferred to profit or loss			
Exchange differences arising on translation from functional currency to presentation currency		**(49)**	(80)
Total comprehensive income for the year		**(32,825)**	10,225
(Loss)/profit for the year attributable to:			
Owners of the Company		**(26,093)**	7,799
Non-controlling interests		**(6,683)**	2,506
		(32,776)	10,305

	Notes	**2019**	2018
		HK$'000	*HK$'000*
Total comprehensive income for the year attributable to:			
Owners of the Company		**(26,595)**	5,916
Non-controlling interests		**(6,230)**	4,309
		(32,825)	10,225
(Loss)/earnings per share			
Basic	*9(a)*	**(2.84) cents**	0.85 cents
Diluted	*9(b)*	**N/A**	0.85 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	2019	2018
		HK$'000	*HK$'000*
Non-current Assets			
Plant and equipment		**82**	5,709
Mining right		**–**	–
Right-of-use assets		**1,176**	–
Investments in associates		**–**	498
Financial assets at fair value through profit or loss		**4,691**	5,350
Club memberships		**874**	877
		6,823	12,434
Current Assets			
Inventories		**26**	95
Trade and other receivables	*10*	**16,503**	42,182
Amounts due from related parties	*13(a)*	**24,849**	–
Amounts due from non-controlling shareholders of subsidiaries		**3,638**	3,435
Financial assets at fair value through profit or loss		**921**	536
Cash and cash equivalents		**18,177**	26,563
		64,114	72,811
Current Liabilities			
Trade and other payables	*11*	**30,688**	39,039
Amounts due to related parties	*13(b)*	**24,796**	11,301
Amounts due to non-controlling shareholders of subsidiaries		**3,426**	3,488
Tax payables		**6,334**	6,415
Bank borrowing		**4,480**	–
Lease liabilities		**1,307**	–
		71,031	60,243
Net Current (Liabilities)/Assets		**(6,917)**	12,568
Total Assets less Current Liabilities		**(94)**	25,002

	Notes	**2019**	2018
		HK$'000	*HK$'000*
Capital and Reserves			
Share capital		**91,778**	91,778
Reserves		**(77,786)**	(51,191)
Equity attributable to owners of the Company		**13,992**	40,587
Non-controlling interests		**(32,617)**	(33,151)
		(18,625)	7,436
Non-current Liabilities			
Lease liabilities		**707**	–
Government grant	*12*	**5,600**	5,700
Amounts due to related parties	*13(b)*	**12,224**	11,866
		18,531	17,566
		(94)	25,002

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

(a) Adoption of new/revised HKFRSs – effective on 1 January 2019

HKFRS 16, Leases
HK(IFRIC)-Int 23, Uncertainty over Income Tax Treatments
Amendments to HKFRS 9, Prepayment Features with Negative Compensation
Amendments to HKAS 19, Plan Amendments, Curtailment or Settlement
Amendments to HKAS 28, Long-term Interests in Associates and Joint Ventures
Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 included in Annual Improvements to HKFRSs 2015-2017 Cycle

The impact of the adoption of HKFRS 16 Leases is summarised below. The other new/revised or amended HKFRSs that are effective from 1 January 2019 did not have any significant impact on the Group's accounting policies or consolidated financial statements.

A. HKFRS 16 – Leases

(i) Impact of the adoption of HKFRS 16

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 Leases ("HKAS 17"), HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases-Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. From a lessee's perspective, almost all leases are recognised in the statement of financial position as right-of-use assets and lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from HKAS 17. The new definition of a lease under HKFRS 16, its impact on the Group's accounting policies and the transition method adopted by the Group as allowed under HKFRS 16 are set out in section (ii) to (iv) of this Note.

The Group has applied HKFRS 16 using the cumulative effect approach and recognised the right-of-use asset at the amount equal to the lease liability, adjusted by the amount of any prepayments or accrued lease payments relating to that lease, as adjustment to the opening balance of accumulated losses at the date of initial application. The comparative information presented for 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The following tables summarised the impact of transition to HKFRS 16 on the consolidated statement of financial position as of 31 December 2018 to that of 1 January 2019 as follows:

	HK$'000
Consolidated statement of financial position as at 1 January 2019	
Right-of-use assets – increase by	**93**
Lease liabilities (current) – increase by	**60**
Lease liabilities (non-current) – increase by	**33**

The following reconciliation explains how the operating lease commitments disclosed under HKAS 17 at 31 December 2018 could be reconciled to the lease liabilities recognised at the date of initial application in the consolidated statement of financial position as at 1 January 2019:

	HK$'000
Operating lease commitments disclosed as at 31 December 2018	723
Less: short term leases for which lease terms end within 31 December 2019	(627)
Less: future interest expenses	(3)
Lease liabilities recognised as at 1 January 2019	93

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the consolidated statement of financial position as at 1 January 2019 is 4.75%.

(ii) The new definition of a lease

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The Group has elected not to separate non-lease components and account for all each lease component and any associated non-lease components as a single lease component for all leases.

(iii) Accounting as lessee

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the statement of financial position of the lessee.

Under HKFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but HKFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised a right-of-use asset and a lease liability at the commencement date of a lease.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (the policy to account for lease liability is set out below); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee; and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Except for right-of-use asset that meets the definition of an investment property or a class of property, plant and equipment to which the Group applies the revaluation model, the Group applies the cost model to measure the right-of-use assets. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any re-measurement of lease liability.

Lease liability

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The following payments for the right-to-use of the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable: (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) re-measuring the carrying amount to reflect any reassessment or lease modifications, e.g. a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

(iv) Transition

As mentioned above, the Group has applied HKFRS 16 using the cumulative effect approach and recognised the right-of-use asset at the amount equal to the lease liability, adjusted by the amount of any prepayments or accrued lease payments relating to that lease, as adjustment to the opening balance of accumulate losses at the date of initial application (1 January 2019). The comparative information presented for 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The Group has recognised the lease liabilities at 1 January 2019 for leases previously classified as operating leases by applying HKAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019.

The Group has elected to recognise all the right-of-use assets at 1 January 2019 for leases previously classified as operating leases under HKAS 17 as if HKFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application. For all these right-of-use assets, the Group has applied HKAS 36 Impairment of Assets at 1 January 2019 to assess if there was any impairment as on that date.

The Group has also applied the follow practical expedients: (i) applied a single discount rate to a portfolio of leases with reasonably similar characteristics; (ii) applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application (1 January 2019) and accounted for those leases as short-term leases; (iii) exclude the initial direct costs from the measurement of the right-of-use asset at 1 January 2019; and (iv) used hindsight in determining the lease terms if the contracts contain options to extend or terminate the leases.

In addition, the Group has also applied the practical expedients such that: (i) HKFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease; and (ii) not to apply HKFRS 16 to contracts that were not previously identified as containing a lease under HKAS 17 and HK(IFRIC)-Int 4.

B. HK(IFRIC)-Int 23 – Uncertainty over Income Tax Treatments

The interpretation explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular, it discusses:

– how to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty;

– that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, ie that detection risk should be ignored;

– that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment;

– that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty, and

– that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements. While there are no new disclosure requirements, entities are reminded of the general requirement to provide information about judgements and estimates made in preparing the financial statements.

Except for the abovementioned, in the current year, the Group has applied a number of amendments to HKFRSs and Interpretations that are effective for an annual period that begins on or after 1 January 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

(b) Potential impact arising on new/revised HKFRSs not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's operations, have been issued but are not yet effective and have not been early adopted by the Group.

Amendments to HKFRS 3	Definition of a Business[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]

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

2 The amendments were originally intended to be effective for periods beginning on or after 1 January 2019. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted.

Amendments to HKFRS 3 – Definition of a Business

The amendments clarify that a business must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs, together with providing extensive guidance on what is meant by a "substantive process".

Additionally, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs, whilst narrowing the definition of "outputs" and a "business" to focus on returns from selling goods and services to customers, rather than on cost reductions. An optional concentration test has also been added that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

Amendments to HKAS 1 and HKAS 8 – Definition of Material

The amendments clarify the definition and explanation of "material", aligning the definition across all HKFRS Standards and the Conceptual Framework, and incorporating supporting requirements in HKAS 1 into the definition.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 – Interest Rate Benchmark Reform

The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainties caused by interest rate benchmark reform. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

Amendments to HKFRS 10 and HKAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

3. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, these consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange.

(b) Basic 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.

During the year, the Group has incurred a loss attributable to the owners of the Company of approximately HK$26,093,000 for the year ended 31 December 2019 and as at 31 December 2019 the Group was in net current liabilities position of approximately HK$6,917,000.

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 2021 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:

– obtained the undertaking from Mr. LAU and Ms. Xiao for not requesting the Group to repay the amounts due to them of HK$20,384,000 until the Group is in a good financial position to repay;

– obtained loans from Mr. LAU in June and July 2020 with an aggregate amount of approximately HK$27,300,000 which are unsecured, non-interest bearing and repayable on 31 December 2021; and

– obtained the deed of undertaking from Mr. LAU that, upon the receipt of written demand issued by the board of directors of the Company, he would provide further financial support up to an aggregate sum of HK$23 million.

Based on the Group's cash flow forecasts, 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 the consolidated financial statements.

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 2019, 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 2019

	Mobile phone business *HK$'000*	Mining business *HK$'000*	Total *HK$'000*
Reportable segment revenue from contracts with external customers within scope of HKFRS 15	**108,455**	**–**	**108,455**
Reportable segment loss	**(19,175)**	**(1,759)**	**(20,934)**
Depreciation of plant and equipment	**1,177**	**–**	**1,177**
Depreciation of right-of-use assets	**368**	**–**	**368**
Reversal of impairment loss recognised in respect of prepayment to a supplier	**(118)**	**–**	**(118)**
Impairment loss recognised in respect of trade and other receivables	**4,256**	**–**	**4,256**
Impairment loss recognised in respect of inventories	**95**	**–**	**95**
Impairment loss recognised in respect of plant and equipment	**4,491**	**–**	**4,491**
Impairment loss recognised in respect of right-of-use assets	**205**	**–**	**205**
Impairment loss on goodwill	**6,005**	**–**	**6,005**
Recovery of write down of inventories	**(370)**	**–**	**(370)**
Reportable segment assets	**60,141**	**3,678**	**63,819**
Additions to non-current assets	**61**	**–**	**61**
Reportable segment liabilities	**(37,639)**	**(13,499)**	**(51,138)**

	2019
	HK$'000
Revenue	
Reportable segment revenue and consolidated revenue	**108,455**
Loss before income tax	
Reportable segment loss	**(20,934)**
Fair value loss on financial assets at fair value through profit or loss	**(108)**
Loss on disposal of financial assets at fair value through profit or loss	**(69)**
Impairment loss recognised in respect of plant and equipment	**(675)**
Impairment loss recognised in respect of right-of-use assets	**(626)**
Loss on write-off of plant and equipment	**(1)**
Interest income	**87**
Gain on deregistration of an associate	**24**
Miscellaneous income	**407**
Motor vehicle expenses	**(161)**
Staff costs (including directors' remunerations)	**(6,184)**
Rental expenses	**(365)**
Corporate expenses	**(3,531)**
Finance costs	**(605)**
Consolidated loss before income tax	**(32,741)**
Assets	
Reportable segment assets	**63,819**
Unallocated corporate assets	
– Financial assets at fair value through profit or loss	**5,612**
– Club memberships	**874**
– Cash and cash equivalents	**232**
– Others *(Note a)*	**400**
Consolidated total assets	**70,937**
Liabilities	
Reportable segment liabilities	**51,138**
Unallocated corporate liabilities	
– Tax payables	**4,574**
– Amount due to a related party, Mr. Lau	**27,568**
– Others *(Note b)*	**6,282**
Consolidated total liabilities	**89,562**

Note a: The unallocated corporate assets mainly included deposits for the headquarter in Hong Kong.

Note b: The unallocated corporate liabilities mainly included lease liabilities for the headquarter in Hong Kong, accrued salaries, professional fee and audit fee.

For the year ended 31 December 2018

	Mobile phone business *HK$'000*	Mining business *HK$'000*	Total *HK$'000*
Reportable segment revenue from contracts with external customers within scope of HKFRS 15	216,104	–	216,104
Reportable segment profit/(loss)	11,990	(3,238)	8,752
Depreciation of plant and equipment	199	–	199
Reversal of impairment loss recognised in respect of prepayment to a supplier	(363)	–	(363)
Impairment loss recognised in respect of trade and other receivables	2	–	2
Impairment loss recognised in respect of inventories	–	1,221	1,221
Recovery of bad debts	(14,083)	–	(14,083)
Recovery of write down of inventories	(155)	–	(155)
Reportable segment assets	72,083	3,643	75,726
Additions to non-current assets	5,808	–	5,808
Reportable segment liabilities	(36,069)	(12,701)	(48,770)

	2018
	HK$'000
Revenue	
Reportable segment revenue and consolidated revenue	216,104
Profit before income tax	
Reportable segment profit	8,752
Fair value loss on financial assets at fair value through profit or loss	(519)
Impairment loss recognised in respect of other receivables	(21)
Interest income	45
Miscellaneous income	598
Write back of interest payables	11,922
Motor vehicle expenses	(116)
Staff costs (including directors' remunerations)	(5,641)
Rental expenses	(634)
Corporate expenses	(3,286)
Share of results of associates	(647)
Consolidated profit before income tax	10,453
Assets	
Reportable segment assets	75,726
Unallocated corporate assets	
– Investments in associates	498
– Financial assets at fair value through profit or loss	5,886
– Club memberships	877
– Cash and cash equivalents	1,704
– Others	554
Consolidated total assets	85,245
Liabilities	
Reportable segment liabilities	48,770
Unallocated corporate liabilities	
– Tax payables	4,574
– Amount due to a related party, Mr. Lau	18,359
– Others	6,106
Consolidated total liabilities	77,809

(b) Geographical information

During the years ended 31 December 2019 and 2018, the Group's operations and non-current assets are situated in the People's Republic of China ("PRC") in which all of its revenue was derived.

(c) Information about major customers

Revenue from major customers, where each of them accounted for 10% or more of the Group's revenue, are set out below:

	2019	2018
	HK$'000	*HK$'000*
Customer A	**20,537**	N/A
Customer B	**19,083**	N/A
Customer C	**15,494**	N/A
Customer D	**11,129**	N/A
Customer E*	**N/A**	80,298
Customer F*	**N/A**	35,667

* *The corresponding revenue in the year for this customer did not contribute over 10% of the total revenue of the Group.*

(d) Revenue

In the following table, revenue is disaggregated by primary geographical market, major products and service lines and timing of revenue recognition.

Disaggregation of revenue from contracts with customers

	Trading of mobile phones	
	2019	2018
	HK$'000	*HK$'000*
Primary geographical market		
PRC	**108,455**	216,104
Major product		
Mobile phone	**108,455**	216,104
Timing of revenue recognition		
At a point in time	**108,455**	216,104

5. OTHER GAINS AND LOSSES

	2019	2018
	HK$'000	*HK$'000*
Exchange loss	**(1)**	(2)
Fair value loss on financial assets at fair value through profit or loss	**(108)**	(519)
Impairment loss recognised in respect of inventories	**(95)**	(1,221)
Impairment loss recognised in respect of plant and equipment	**(5,166)**	–
Impairment loss recognised in respect of right-of-use assets	**(831)**	–
Impairment loss on goodwill	**(6,005)**	–
Reversal of impairment loss recognised in respect of prepayment to a supplier	**118**	363
Impairment loss recognised in respect of trade and other receivables	**(4,256)**	(23)
Write back of interest payables	**–**	11,922
Write back of trade payables	**23**	–
Loss on disposal of financial assets at fair value through profit or loss	**(69)**	–
Loss on write-off of plant and equipment	**(1)**	–
Gain on deregistration of an associate	**24**	–
Recovery of bad debts	**–**	14,083
Others	**–**	(1,619)
	(16,367)	22,984

6. FINANCE COSTS

	2019	2018
	HK$'000	*HK$'000*
Interest on lease liabilities	**29**	–
Imputed interest on loan from a related party	**576**	–
	605	–

7. INCOME TAX EXPENSE

The amount of income tax expense in the consolidated statement of comprehensive income represents:

	2019	2018
	HK$'000	*HK$'000*
Current tax – PRC Enterprises Income Tax ("EIT")		
– tax for the year	**35**	148

The Group's major operations are being carried out through its subsidiaries established in the PRC and subject to the EIT rate of 25% (2018: 25%), unless preferential rates are applicable in the cities where the subsidiaries are located.

The income tax expense for the year can be reconciled to the (loss)/profit before income tax per the consolidated statement of comprehensive income as follows:

	2019	2018
	HK$'000	*HK$'000*
(Loss)/profit before income tax	**(32,741)**	10,453
Income tax (credit)/expense at the domestic income tax rate of 25% (2018: 25%) *(Note)*	**(8,185)**	2,613
Tax effect of share of results of associates	**–**	107
Tax effect of non-deductible expenses	**3,378**	1,053
Tax effect of non-taxable income	**(198)**	(5,415)
Tax effect of tax losses not recognised and utilisation of tax losses and deductible temporary differences	**3,720**	2,482
Effect of tax concession granted to a subsidiary	**(141)**	(155)
Effect of different tax rates of group entities operating in other jurisdictions	**1,461**	(537)
Income tax expense	**35**	148

At the end of reporting period, the Group had estimated unrecognised tax losses of approximately HK$195,169,000 (2018: HK$182,731,000) available for offsetting 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$48,798,000 (2018: HK$43,043,000) 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$4,930,000 (2018: HK$8,854,000). 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.

8. (LOSS)/PROFIT BEFORE INCOME TAX

	2019	2018
	HK$'000	*HK$'000*
(Loss)/profit before income tax is arriving at		
after charging:		
Auditor's remuneration	**1,016**	1,134
Cost of inventories recognised as expenses	**107,444**	213,966
Depreciation of plant and equipment	**1,215**	211
Depreciation of right-of-use assets	**533**	–
Staff costs		
– directors' emoluments	**3,594**	3,631
– salaries and allowances for other staff	**5,072**	3,742
– retirement benefit scheme contribution (excluding directors)	**295**	267
	8,961	7,640
and after crediting:		
Interest income	**87**	45
Recovery of write down of inventories	**370**	155

9. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of (loss)/earnings per share for the year is based on the loss for the year attributable to owners of the Company of HK$26,093,000 (2018: profit of HK$7,799,000) and the weighted average number of 917,779,442 (2018: 917,779,442) shares in issue during the year.

(b) Diluted (loss)/earnings per share

No diluted loss per share is presented as the effect of all potential ordinary shares is anti-dilutive for the year ended 31 December 2019.

Diluted earnings per share is the same as basic earnings per share because the Group has no dilutive potential shares for the year ended 31 December 2018.

10. TRADE AND OTHER RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
Trade receivables	**8,379**	508
Less: accumulated allowance	**(3,250)**	(52)
	5,129	456
Value-added-tax receivables	**356**	259
Prepayments to suppliers	**27,708**	40,122
Other receivables and deposits	**14,509**	32,262
Less: accumulated allowance	**(31,199)**	(30,917)
Trade and other receivables	**16,503**	42,182

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

	2019	2018
	HK$'000	*HK$'000*
0 to 30 days	**5,023**	–
31 to 90 days	**25**	–
91 to 365 days	**81**	456
	5,129	456

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.

(b) Included in the other receivables as at 31 December 2019 were advances of HK$3,366,000 (2018: HK$841,000) to Mr. Dai's mother ("Mrs. Dai"). Mr. Dai is a non-controlling shareholder of one of the Group's subsidiaries. The advances are unsecured, non-interest bearing and repayable on demand.

11. TRADE AND OTHER PAYABLES

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

	2019	2018
	HK$'000	*HK$'000*
Trade payables:		
0 to 90 days	**1,269**	–
Over 90 days	**349**	42
	1,618	42
Value-added-tax payables	**18**	18
Prepayments from customers	**1,033**	143
Other payables and accruals	**28,019**	38,836
	30,688	39,039

12. GOVERNMENT GRANT

A government grant of HK$5,600,000 (equivalent to RMB5,000,000) was awarded to a subsidiary of the Group by the PRC local government agencies as an incentive primarily to encourage and support its business development in local district. Under the terms of this government grant, the grant would be recalled if the subsidiary could not meet certain level of accumulated Value-added tax ("VAT") and EIT payment during a period of three years up to 2021.

13. AMOUNTS DUE FROM/TO RELATED PARTIES

(a) Amounts due from related parties

	2019	2018
	HK$'000	*HK$'000*
Current Assets		
– An entity controlled by Mr. Dai, a non-controlling shareholder of a subsidiary	**8,960**	–
– Mr. Gao Fei	**15,889**	–
	24,849	–

Note: The balances are unsecured, non-interest bearing and repayable on demand.

(b) Amounts due to related parties

	2019	2018
	HK$'000	*HK$'000*
Current Liabilities		
– Entities controlled by Mr. Dai, a non-controlling shareholder of a subsidiary *(Note i)*	**4,412**	4,808
– Mr. Lau Siu Ying ("Mr. Lau") *(Note i)*	**15,344**	6,493
– Ms. Xiao *(Note i and ii)*	**5,040**	–
	24,796	11,301
Non-current Liability		
– Mr. Lau *(Note iii)*	**12,224**	11,866
	37,020	23,167

Notes:

i) The balances are unsecured, non-interest bearing and repayable on demand.

ii) Ms. Xiao is considered as a related party, because she is Mr. Lau's spouse.

iii) On 31 December 2018, Mr. Lau advanced HK$13,680,000 (equivalent to RMB12,000,000) to the Group which is due on 31 December 2021. The borrowing is carried at amortised cost using an imputed interest rate of 4.75% per annum. The imputed interest portion of HK$1,814,000 was credited to other reserve under the equity attributable to owners of the Company.

MATERIAL DIFFERENCES BETWEEN UNAUDITED AND AUDITED ANNUAL RESULTS

Since financial information contained in the Unaudited Annual Results Announcement was neither audited nor agreed with BDO Limited as at the date of their publication and subsequent adjustments have been made to such information, shareholders and potential investors of the Company are advised to pay attention to certain differences between the financial information of the unaudited and audited annual results of the Group. Set forth below are principal details and reasons for the material differences in such financial information in accordance with Rule 13.49(3)(ii)(b) of the Listing Rules.

Item for the year ended 31 December 2019	**Disclosure in this further announcement**	**Disclosure in the Unaudited Annual Results Announcement**	**Difference**	*Notes*
	HK$'000	*HK$'000*	*HK$'000*	
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME				
Other gains and losses	(16,367)	(13,595)	(2,772)	*1*
Loss before income tax	(32,741)	(29,969)	(2,772)	*1*
Loss for the year	(32,776)	(30,004)	(2,772)	*1*
Total comprehensive income for the year	(32,825)	(30,061)	(2,764)	*1, 2*
Loss for the year attributable to:				
Owners of the Company	(26,093)	(23,321)	(2,772)	*1*
Total comprehensive income for the year attributable to:				
Owners of the Company	(26,595)	(23,856)	(2,739)	*1, 2*
Loss per share – basic	(HK2.84 cents)	(HK2.54 cents)	(HK0.30 cents)	*1*

Item for the year ended 31 December 2019	Disclosure in this further announcement	Disclosure in the Unaudited Annual Results Announcement	Difference	*Notes*
	HK$'000	*HK$'000*	*HK$'000*	
CONSOLIDATED STATEMENT OF FINANCIAL POSITION				
Plant and equipment	82	757	(675)	*3*
Intangible asset	–	2,800	(2,800)	*4*
Right-of-use assets	1,176	2,004	(828)	*5*
Trade and other receivables	16,503	21,402	(4,899)	*6*
Amounts due from related parties	24,849	15,889	8,960	*7*
Amounts due from non-controlling shareholders of subsidiaries	3,638	13,039	(9,401)	*7, 8*
Trade and other payables	30,688	32,092	(1,404)	*9*
Amounts due to related parties	24,796	20,384	4,412	*10*
Amounts due to non-controlling shareholders of subsidiaries	3,426	7,838	(4,412)	*10*

Notes:

1. The difference is mainly due to the net of impairment loss recognised in respect of plant and equipment, right-of-use assets, goodwill, trade and other receivables and the reversal of impairment loss recognised in respect of prepayment to a supplier.

2. The difference is mainly for all due to the exchange differences arising on translation from functional currency to presentation currency.

3. The difference is mainly for all due to the impairment loss recognised in respect of plant and equipment.

4. The difference is due to the adjustment on the valuation for the intangible asset which represented the software acquired in a business combination measured at fair value at the date of acquisition.

5. The difference is due to the impairment loss recognised in respect of right-of-use assets.

6. The difference is due to the impairment loss recognised in respect of trade and other receivables and reclassification from other payables.

7. The difference is mainly due to the reclassification from amounts due from non-controlling shareholders of subsidiaries to amounts due from related parties.

8. The difference is mainly due to the reversal of impairment loss recognised in respect of prepayment to a supplier.

9. The difference is due to the reclassification from amounts due from non-controlling shareholders of subsidiaries and the reclassification to other receivables.

10. The difference is due to the reclassification from amounts due to non-controlling shareholders of subsidiaries to amounts due to related parties.

Save as disclosed in this further announcement and the corresponding adjustments in totals, percentages, ratios and comparative figures related to the above material differences, all other information contained in the Unaudited Annual Results Announcement remain unchanged.

EXTRACT OF THE INDEPENDENT AUDITOR'S REPORT

The auditor expressed an qualified opinion in the independent auditor's report on the consolidated financial statements of the Group for the year ended 31 December 2019. The basis for qualified opinion is extracted as follow:

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the "Basis for Qualified Opinion" section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Qualified Opinion

As described in Note 24 to the consolidated financial statements, included in the Group's trade and other receivables as at 31 December 2019 were advances of HK$3,366,000 (the "Advance") to Mr. Dai's mother ("Mrs. Dai"). Mr. Dai is a non-controlling shareholder of one of the Group's subsidiary.

As described in Note 37(a) to the consolidated financial statements, included in the Group's amounts due from related parties as at 31 December 2019 was amount of HK$8,960,000 due from a company which is wholly owned by Mr. Dai (the "Debt").

The Advance and the Debt were unsecured, non-interest bearing and repayable on demand. As at 31 December 2019, the directors of the Company considered the credit risk of the Advance and the Debt have not increased significantly since initial recognition and the loss allowance for the Advance and the Debt were measured at an amount equal to 12-month expected credit losses. In the opinion of the directors, the 12-month expected credit losses in respect of the Advance and the Debt were immaterial and therefore no loss allowance has been recognised as at 31 December 2019.

During our course of audit, the directors of the Company have not provided us with adequate information about their assessment conclusion that the credit risk of the Advance and the Debt have not increased significantly since initial recognition. In addition, no reliable and supportable information in respect of the estimation of the 12-month expected credit losses of the Advance and the Debt were provided to us by the directors of the Company. We were therefore unable to obtain sufficient appropriate audit evidence we considered necessary to assess the appropriateness of the directors' expected credit losses allowance assessment on the Advance and the Debt. Given these scope limitations, we were unable to determine whether the directors' estimation of expected credit loss allowance on the Advance and the Debt has followed the Group's accounting policies as detailed in Note 4 to the consolidated financial statements, which are required by Hong Kong Financial Reporting Standard 9 "Financial Instruments".

Recognition of expected credit loss allowance in respect of the Advance or the Debt as at 31 December 2019 found necessary would increase the Group's loss for the year and its net liabilities as at 31 December 2019, and would affect the related disclosures thereof in the consolidated financial statements.

We conducted our audit in accordance with the Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

REVIEW AND OUTLOOK

Revenue

For the year ended 31 December 2019, the Group recorded total revenue of HK$108.5 million, which was approximately HK$107.6 million or 49.8% lower than the revenue of HK$216.1 million reported in 2018. The decrease in Group's revenue was primarily attributable to the decrease in revenue from mobile phone trading business in PRC.

The Group's revenue was entirely derived from mobile phone trading business in both reporting years. During the year ended 31 December 2019, revenue contribution from Zhejiang was HK$103.4 million representing 95.3% of the total revenue of the Group, whereas Shanghai contributed HK$5.0 million or 4.6% of the total revenue of the Group.

The decrease in revenue was due to the economic slowdown and sluggish consumer spending resulted in slower sales in 2019. China's consumers pulling back on spending have taken a toll on its mobile phone retail market which is stalled and declining, the sales of the Group were scaled back in 2019 while an expansion of wholesale business network benefit the Group's performances in 2018.

Gross profit and gross profit margin

The Group's gross profit decreased by 52.7%, from HK$2.1 million for the year ended 31 December 2018 to HK$1.0 million for the year ended 31 December 2019. The decrease of gross profit was due to the scaled back in Group's performance on mobile phone trading business in 2019.

Due to China's consumers pulling back on spending and the keen competition in the mobile phone retail market, the Group's gross profit margin was decreased slightly from 1.0% for the year ended 31 December 2018 to 0.9% for the year ended 31 December 2019. Such decrease was also due to the increased bargaining power from telecommunications chain stores and mobile carriers which purchasing mobile phone.

Other income

Other income was approximately HK$0.5 million for the year ended 31 December 2019, representing a decrease of HK$0.4 million or 44.8% when compared to HK$0.9 million for the year ended 31 December 2018. The decrease was mainly due to decrease of commission income incurred from trading business and other miscellaneous income.

Other gains and losses

We had a net gain of HK$23.0 million for the year ended 31 December 2018 and a net loss of HK$16.4 million for the year ended 31 December 2019. For the year ended 31 December 2019, the net loss mainly consisted of impairment loss recognised in respect of plant and equipment of HK$5.2 million, an impairment loss on goodwill of HK$6.0 million, an impairment loss recognised in respect of trade and other receivables of HK$4.3 million and net fair value loss on financial assets at fair value through profit or loss of HK$0.1 million. The turnaround from net gain to net loss in current year was due to a write back of interest payables of HK$11.9 million and recovery of bad debts of HK$14.1 million were recognised in 2018, while no such gain was recognised in 2019.

Selling and distribution costs

Selling and distribution costs were approximately HK$20 thousand for the year ended 31 December 2019, representing an increase of approximately HK$9 thousand or 81.8% when compared to HK$11 thousand for the year ended 31 December 2018. The increase was mainly due to the increase of advertising and promotions and entertainment expenses during the current year.

Administrative expenses

The Group's administrative expenses increased by 15.7% to HK$17.3 million for the year ended 31 December 2019 when compared to last year of HK$14.9 million, which was mainly attributable to the increase of depreciation and salaries and allowances.

Finance costs

During the year ended 31 December 2019, finance costs amounted to $0.6 million, while no finance costs was recorded during the year ended 31 December 2018. The increase of finance costs was due to the imputed interest on loan from a related party and interest on lease liabilities in current year.

Share of results of associates

For the year ended 31 December 2019, no share of results of associates was recognised (2018: loss of HK$0.7 million). For the year ended 31 December 2018, loss on disposal of an investment of an associate was recognised, while no such loss was recognised in current year.

Income tax expense

As set out in Note 7 of the announcement, income tax expense amounted to HK$35 thousand for the year ended 31 December 2019, as compared to income tax expense amounted to HK$0.1 million in last year.

(Loss)/profit for the year attributable to owners of the Company

As a result of the factors set out above, the Group's share of loss amounted to HK$26.1 million for the year ended 31 December 2019, as compared to HK$7.8 million of profit for the year attributable to owners of the Company in last year.

(Loss)/earnings per share

The basic loss per share was HK2.84 cents in current year as compared to the basic earnings per share of HK0.85 cents in last year. The diluted earnings per share was HK0.85 cents for the year ended 31 December 2018, while no diluted loss per share is presented as the effect of all potential ordinary shares is anti-dilutive for the year ended 31 December 2019.

Financial assets at fair value through profit or loss

As at 31 December 2019 and 2018, the Group held various unlisted equity investments and unlisted fund investment engaged in developing mobile devices and operating system, manufacturing and distribution of mobile devices and digital asset investment service platform in different jurisdictions and engaged in different business.

The unlisted equity investments and unlisted fund investment were reclassified at financial assets as fair value through profit or loss as at 1 January 2018 as the Group considers these investments to be strategic in nature.

Inventories

Inventories decreased by 72.6% from HK$95 thousand as at 31 December 2018 to HK$26 thousand as at 31 December 2019 was due to an impairment loss on inventories of HK$95 thousand was recognised in current year. The Group will continue to apply strict policy in inventory control in the future.

Trade and other receivables

Trade and other receivables of the Group decreased by 60.9% from approximately HK$42.2 million as at 31 December 2018 to approximately HK$16.5 million as at 31 December 2019, primarily due to settlement of other receivables. No impairment loss on prepayments paid to suppliers was recognised during the years ended 31 December 2019 and 2018.

Cash and cash equivalents

The total cash and cash equivalents amounted to HK$18.2 million as at 31 December 2019 as compared to HK$26.6 million as at 31 December 2018, without any deposit pledged to banks. The Group is financed by a combination of its equity capital, cash flow generated from its operation. 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 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.

Trade and other payables

The trade and other payables of the Group decreased by 21.4% from approximately HK$39.0 million as at 31 December 2018 to approximately HK$30.7 million as at 31 December 2019, due to a decrease in other payables to third parties along with its business.

Bank borrowing

As at 31 December 2019, the Group's bank borrowing amounted to HK$4.5 million, while no bank borrowings as at 31 December 2018.

Liquidity and gearing ratio

The net asset value of the Group attributable to owners of the Company as at 31 December 2019 amounted to HK$14.0 million or HK$0.02 per share when compared to HK$40.6 million or HK$0.04 per share as at 31 December 2018. As at 31 December 2019, the Group had net current liabilities of approximately HK$6.9 million when compared to net current assets of HK$12.6 million as at 31 December 2018. As at 31 December 2019, the Group had a current ratio of 0.90 times (31 December 2018: 1.21 times). The gearing ratio of the Group, defined as the ratio of the total long term liabilities to the shareholder's equity, was 1.32 and 0.43 as at 31 December 2019 and 2018.

Capital commitments

As at 31 December 2019, the Group had capital expenditure contracted for but not provided in the consolidated financial statements in respect of leasehold improvements amounted to HK$0.2 million (31 December 2018: HK$0.2 million).

Contingent liabilities

As at 31 December 2019, the Group did not have any contingent liabilities or guarantees (31 December 2018: nil).

Material acquisitions and disposals of subsidiaries or associates

The Corporate Action and the Acting-In-Concert

Shanghai Yuanjia, and indirect wholly-owned subsidiary of the Company, and Other Beijing Feiying Shareholders started contemplating on implementing change in control of the board of Beijing Feiying in March 2019. Pursuant to the change in control of the board of Beijing Feiying which became effective on 27 December 2019, the board of directors of Beijing Feiying shall comprise five members, of which two had been appointed by Shanghai Yuanjia, Mr. Gao Fei has undertaken to vote in concert with Shanghai Yuanjia by virtue of a signed Acting-in-Concert Agreement entered into between Shanghai Yuanjia and Mr. Gao Fei, and two which had been appointed by the Other Beijing Feiying Shareholders. As a result of the change in control of the board of Beijing Feiying, Shanghai Yuanjia shall be able to control the respective board of directors of Beijing Feiying. As such, Beijing Feiying shall be accounted for as a subsidiary of the Company. No consideration has been paid or is payable by the Company for the change in control of the board of Beijing Feiying and there has not been any changes to the respective equity interest held by Shanghai Yuanjia and the Other Beijing Feiying Shareholders. The change in control of the board of Beijing Feiying were agreed between Shanghai Yuanjia and Mr. Gao Fei after arm's length negotiations and allow the Group to step up its participation in the operations and strengthen the corporate governance of Beijing Feiying.

Beijing Feiying is previously engaged in the recycling of used mobile phones. In addition, Beijing Feiying has also entered into a cooperation agreement with the mobile and internet conglomerate, Tencent, for Tencent's new mobile application, which helps users transfer data from old phones to newer ones. Under the cooperation agreement, Beijing Feiying receives 70% of revenue generated from the mobile application by users. As stipulated in the cooperation agreement, Beijing Feiying is currently mainly to assist in the promotion of the mobile application to consumers.

Significant investments held by the Group

During the years ended 31 December 2019 and 2018, the Group did not make any significant investments.

Use of proceeds

The 2017 Subscription

On 23 December 2016, the Company entered into a conditional Subscription Agreement with the Subscribers respectively, pursuant to which the Company has agreed to issue and the Subscribers have agreed to subscribe totaling 85,716,000 Subscription Shares. On 1 February 2017, the Company completed subscription of 85,716,000 new Shares. After taking into account the share issue expenses of approximately HK$0.2 million, the net price per Subscription Share issued is about HK$0.35. The net proceeds, after deducting the share issue expenses, received by the Company is approximately HK$29.8 million.

Up to 31 December 2019, 100% of the net proceeds had been fully utilised as general working capital by the Group, with breakdown as follows:

	For the year ended 31 December 2017 *HK$'000*	**For the year ended 31 December 2018** *HK$'000*	**For the year ended 31 December 2019** *HK$'000*	**Total utilised up to 31 December 2019** *HK$'000*	**% of net proceeds utilised up to 31 December 2019** *%*
Selling and distribution costs	397	11	11	419	1.4
Administrative expenses					
– Salaries and allowances	3,980	3,731	473	8,184	27.5
– Directors' fee	4,253	3,631	298	8,182	27.5
– Professional fees	2,105	2,923	167	5,195	17.4
– Rental expenses	1,561	1,544	156	3,261	10.9
– Office expenses	236	294	41	571	1.9
– Travelling expenses	155	328	49	532	1.8
– Rates and management fee	121	192	35	348	1.2
– Utilities	132	115	15	262	0.9
– Insurance	113	112	21	246	0.8
– Others	1,371	1,140	89	2,600	8.7
Total	14,424	14,021	1,355	29,800	100.0

Employees and remuneration policies

As at 31 December 2019, the Group has in total 71 employees as compared to 25 employees as at 31 December 2018. Employees were remunerated according to the nature of their job duties and market trend. The Group provided staff welfare and fund contribution to its employee 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.

Subsequent events

Outbreak of novel coronavirus (the "COVID-19")

After the COVID-19 outbreak in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. As at the date on which this set of financial statements were authorised for issue, the COVID-19 outbreak has been intensifying and spreading across the PRC, weighing on the PRC wholesale and retail markets. There is an ongoing concern regarding the development and government advices related to, or restrictions on, travel to and from regions, which hinders customers making sales order, disrupted the logistics of the supply chain for our distribution and the movement of goods and people within the PRC. The Group will keep continuous attention on the change of situation and make timely response and adjustments in the future.

The Group does not have other significant subsequent events.

FINAL DIVIDEND

The Board do not recommend the payment of any dividend in respect of the year. (2018: Nil).

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 approximately 1.6 billion subscribers to mobile phone services in the PRC as at the end of 2019. 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 past years and the issuance of 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.

Although China, the world's largest mobile phone market reached a saturation point, the 5G economy has seen a huge growth. The boom of 5G mobile phones comes as China launched 5G commercialisation at the end of 2019 with the nation's telecom operators rolling out their 5G data plans.

Looking back at 2019, China's mobile phone market declined and scaled back due to the international trade conflicts escalated, the uncertainties of economic development and China's consumers pulling back on spending. The decline is expected to continue in the coming year due to the impact of COVID-19 outbreak in China.

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. As for the PRC market, its economy growth was slowdown in 2019. Yet, the continuous development of mobile phone market business model intensifying competition in the retail industry and the uncertainties arising from the emerging US-China trade war presented challenges the development of the Group's operations and performance.

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 5G 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 Business

The Group has once commenced 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.

In the course of applying for further extension after expiry on 25 September 2016, the Department of Land and Resources of Hubei Province of the PRC (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 informed 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 deregister the mining operating permits before 31 March 2018 by themselves or the DLR will de-register the permits instead. The Group was unable to furnish the application before the deadline and therefore, instructed the Group's PRC lawyers to clarify with the DLR the Group's situation as to whether the Group would be allowed to submit a new application for the mining operating permit in future.

Despite great efforts to ascertain with the DLR by the Group's PRC lawyers, the Group had been unable to receive a clear and favourable reply in this regard. As a result and prudent measure, a full impairment of the mining right of HK$174.6 million and related plant and equipment of HK$9.0 million had been made whist all the related deferred tax liabilities of HK$41.1 million had been derecognised in the profit or loss for the year ended 31 December 2017.

Despite the fact that the above mining right will no longer have any bearing on the financials of the Group for the year ended 31 December 2019, the Directors strived to pursue the ultimate stance of the DLR in respect of the above mining right in the interests of the Shareholders.

During the year ended 31 December 2018, the Group, through its PRC lawyer, has tried to approach DLR by telephone calls and resubmission of the letter sent in February 2018 for the clarification of the Group's situation. However, DLR did not make reply to the Group's enquiries.

According to an online search made by the Group's PRC lawyer to the Ministry of Natural Resources of the PRC（中華人民共和國自然資源部）on 20 February 2020, the status of the mining operating permit has been displayed as "expired".

Therefore, the Group's PRC lawyers have come to the opinion that the mining operating permit has already expired and will be unable to be renewed and hence be deregistered eventually. For the avoidance of doubt, such opinion will not affect the financial statements of the Group for the year ended 31 December 2019.

Prepayments to suppliers and related legal proceedings

For the year ended 31 December 2017, an impairment loss of HK$24.9 million was recognised for the prepayments in the total sum of HK$33.7 million made to two mobile phone suppliers, one in Guangzhou and another one in Chongqing by a subsidiary of the Group in Shanghai.

The said subsidiary commenced arbitral proceedings and, on 14 January 2019, has obtained the final arbitral award of, amongst others, HK$19.8 million, being the prepayment against the Chongqing supplier. In the course of such arbitral proceedings, a sum of HK$10.2 million has been repaid by such supplier. After obtaining the arbitral award, the Group instructed PRC lawyers to enforce the arbitral award, but was informed by the PRC lawyers that, according to a notice by the Chongqing No.5 Intermediate People's Court dated 25 October 2019, after checking through the national wide network of the PRC Court for enforcement against the Chongqing supplier, the Chongqing Supplier had no assets left to be enforced against.

The said subsidiary also commenced legal proceedings for recovery of the prepayment of HK$14.8 million against the Guangzhou supplier in the People's Court in Guangzhou, China. After the final hearing of the trial of the legal proceedings instituted by the said subsidiary against the Guangzhou supplier in the People's Court in Guangzhou, the PRC, on 28 April 2019, judgment has been entered into against such supplier in the sum of about HK$12.7 million together with default charge and legal costs. The Guangzhou supplier had filed an appeal against such judgment, but the appeal was subsequently withdrawn by the Guangzhou supplier. Therefore, the judgment is valid, effective and executable for which enforcement proceedings was commenced against the Guangzhou supplier. However, as informed by the PRC lawyers of the Group, according to a notice issued by the People's Court of Huangpu District of Guangzhou dated 4 June 2020, after checking through the national wide network of the PRC Court for enforcement against the Guangzhou supplier, the Guangzhou supplier had no remaining assets that could be subject to enforcement proceedings to be carried out by the said subsidiary.

Notwithstanding the above situations, the Group will explore all possible means to recover the prepayments.

No impairment was made in respect of these two prepayments for the year ended 31 December 2019.

Prospects and Outlook

The China economy is showing a sign of slowdown resulting from the US-China trade war that has simmered in 2019. Though the phase one interim agreement has been made in December 2019 to prevent a further escalation of the trade war, it is expected that the next round of the negotiation between the US and China would get tougher once they begin tackling the thorny issues on which they had clashed. Furthermore, in early of year 2020, the outbreak of the COVID-19 in China followed hard on the heels of the phase one's US-China trade truce. The Group expect the consumption and retail segment will continued to be affected from the double blow of the US-China trade war and the COVID-19 facing an uncertain future in the coming years.

In 2019, the mobile phone market in China was still strong but its growth was obviously slowing down which resulted from the trade pressure exerted by the US in the trade war, denting the economic growth in China.

However, the continued economic growth in the PRC is fuelled by a high internal consumption. As the world's largest mobile handset market, there were approximately 1.6 billion handset subscribers in the PRC which benefit from preferential mobile internet traffic policies. The significant increase in 4G users, 5G users and Internet users implies that there are huge business opportunities in both mobile application and mobile commerce.

China was currently the world's largest 4G network and continues to strive for further expansion. With a goal to add new 4G base stations in previous years to improve signal coverage in buildings, elevators, and other indoor space, as well as on railways and expressway. 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. As the technology for 5G telecommunications networks matured and was ready for takeoff demand for related equipment has remained robust. Recent developments in the China market along with anticipation of aggressive activity from the mobile phone supply chain have caused us raised our Group short-term 5G forecast and expect that China will become the lead market in terms of 5G volume. In light of the increasing uncertainties in the global economy, the Group will closely monitor changes in the economic environment and will be proactive and seize opportunities in Hong Kong and ASEAN trading markets.

Pursuant to the change in control of the board of Beijing Feiying which became effective on 27 December 2019, Beijing Feiying shall be accounted for as a subsidiary of the Company, the Company can consolidate Beijing Feiying's results into the Group's accounts. The Group can tap into the used mobile phones and mobile apps market and could also share a greater profit of Beijing Feiying and this would be reflected in the accounts of the Group in coming years.

Beijing Feiying has also entered into a cooperation agreement with the mobile and internet conglomerate, Tencent, for Tencent's new mobile application, which helps users transfer data from old phones to newer ones. Under the cooperation agreement, Beijing Feiying receives 70% of revenue generated from the mobile application by users. As stipulated in the cooperation agreement, Beijing Feiying is currently mainly to assist in the promotion of the mobile application to consumers.

As at the date of this announcement, Beijing Feiying and Tencent has yet to conclude on the renewal of a new agreement due to the delay in the commencement of negotiations caused by the COVID-19 Outbreak, upon expiry of the Agreement on 15 April 2020. Notwithstanding the expiration of the Agreement, Beijing Feiying and Tencent are in discussion for a renewal and Beijing Feiying is still providing the relevant services as stipulated in the Agreement to Tencent up to the date of this announcement, and may lead to the decrease in revenue of the Group if the Group's services to Tencent is no longer required.

But the outbreak of the COVID-19 in early 2020, the pessimistic sentiment is developing regarding the macroeconomic and the worldwide wholesale and retail environment, which would foreseeably have an adverse impact on our business. It has been intensifying and spreading across the PRC. Weighing on the PRC wholesale and retail markets. There is an ongoing concerns regarding the development of mobile phone markets, which hinders customers making sales order. Moreover, in view of the weakening wholesale and retail markets, customers would tend to make orders with lower average selling price, which would possibly lower our Group's gross profit.

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 2019, 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 had complied with the code provisions in the Corporate Governance Code (the "CG 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") throughout the year ended 31 December 2019, with deviations as stated below:

Code Provision A.2.1

Code Provision A.2.1 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.

Code Provision A.4.1

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

All existing 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. Lam Man Kit (Chairman of the Audit Committee), Dr. Law Chun Kwan and Dr. Lo Wai Shun.

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.

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 2019 as set out in this announcement of annual results 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 announcement of annual results.

PUBLICATION OF AUDITED ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement was published on the website of the Stock Exchange at http://www.hkexnews.hk and on the Company's website at http://www.fortunetele.com. The annual report for the year ended 31 December 2019 containing all the information required by Appendix 16 of the Listing Rules is expected to be published on 17 July 2020 on the same websites and will be dispatched to the shareholders of the Company by no later than 24 July 2020.

APPRECIATION

The Board would like to express its sincere appreciation to the Company's shareholders, customers, suppliers and staff for their continued support to the Group.

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

Hong Kong, 17 July 2020

As at the date of this announcement, the Board comprises three executive directors, namely Mr. Lau Siu Ying, Mr. Wang Yu and Mr. Gao Fei; one non-executive director, namely Mr. Bao Kang Rong; and three independent non-executive directors, namely Dr. Law Chun Kwan, Mr. Lam Man Kit and Dr. Lo Wai Shun.