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China Fortune Holdings Limited

中國長遠控股有限公司*[*]

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

(Stock Code: 110)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

The board of directors (the "Board") of China Fortune Holdings Limited (the "Company") announces the consolidated annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2020, together with the comparative figures as follows:

* *For identification purpose only*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
Revenue	4	**80,949**	108,455
Cost of sales		**(80,558)**	(107,444)
Gross profit		**391**	1,011
Other income		**790**	506
Other gains and losses	5	**11,000**	(12,229)
Selling and distribution costs		**(334)**	(20)
Administrative expenses		**(15,484)**	(17,266)
Impairment loss on financial assets:			
– Trade and other receivables, net		**(3,771)**	(4,138)
– Amount due from a non-controlling shareholder of a subsidiary		**(386)**	–
– Amount due from an associate		**(224)**	–
Finance costs	6	**(1,153)**	(605)
Share of results of associates		**–**	–
Loss before income tax	8	**(9,171)**	(32,741)
Income tax credit/(expense)	7	**4,547**	(35)
Loss for the year		**(4,624)**	(32,776)
Other comprehensive income that may be subsequently transferred to profit or loss			
Exchange differences arising on translation from functional currency to presentation currency		**(780)**	(49)
Release of translation reserve upon deemed disposal of subsidiaries		**94**	–
Release of translation reserve upon disposal of subsidiaries		**(4)**	–

	Notes	**2020**	2019
		HK$'000	*HK$'000*
Total comprehensive income for the year		**(5,314)**	(32,825)
Profit/(loss) for the year attributable to:			
Owners of the Company		**219**	(26,093)
Non-controlling interests		**(4,843)**	(6,683)
		(4,624)	(32,776)
Total comprehensive income for the year attributable to:			
Owners of the Company		**1,729**	(26,595)
Non-controlling interests		**(7,043)**	(6,230)
		(5,314)	(32,825)
Earnings/(loss) per share			(Restated)
Basic	*9(a)*	**0.23 cents**	(26.98) cents
Diluted	*9(b)*	**N/A**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
Non-current Assets			
Plant and equipment		**26**	82
Mining right		**–**	–
Right-of-use assets		**110**	1,176
Investments in associates		**–**	–
Financial assets at fair value through profit or loss		**3,964**	4,691
Club memberships		**886**	874
		4,986	6,823
Current Assets			
Inventories		**–**	26
Trade and other receivables	*10*	**3,292**	16,503
Amounts due from related parties	*13(a)*	**–**	24,849
Amounts due from non-controlling shareholders of subsidiaries		**28**	3,638
Financial assets at fair value through profit or loss		**907**	921
Cash and cash equivalents		**30,122**	18,177
		34,349	64,114
Current Liabilities			
Trade and other payables	*11*	**22,024**	30,688
Amounts due to related parties	*13(b)*	**11,419**	24,796
Amounts due to non-controlling shareholders of subsidiaries		**465**	3,426
Tax payables		**1,847**	6,334
Bank borrowing		**–**	4,480
Lease liabilities		**456**	1,307
		36,211	71,031
Net Current Liabilities		**(1,862)**	(6,917)
Total Assets less Current Liabilities		**3,124**	(94)

	Notes	2020 HK$'000	2019 HK$'000
Capital and Reserves			
Share capital		**91,778**	91,778
Reserves		**(75,015)**	(77,786)
Equity attributable to owners of the Company		**16,763**	13,992
Non-controlling interests		**(42,055)**	(32,617)
Deficit		**(25,292)**	(18,625)
Non-current Liabilities			
Lease liabilities		**–**	707
Government grant	*12*	**–**	5,600
Amounts due to related parties	*13(b)*	**28,416**	12,224
		28,416	18,531
		3,124	(94)

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/amended HKFRSs

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new/amended Hong Kong Financial Reporting Standards ("HKFRSs") that are first effective for the current accounting period of the Group:

Amendments to HKFRS 3, Definition of a Business
Amendments to HKAS 1 and HKAS 8, Definition of Material
Amendments to HKAS 39, HKFRS 7 and HKFRS 9, Interest Rate Benchmark Reform

Amendments to HKFRS 3, Definition of a Business

The amendments clarify the definition of a business and introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The election to apply the concentration test is made for each transaction. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If the concentration test is met, the set of activities and assets is determined not to be a business. If the concentration test is failed, the acquired set of activities and assets is further assessed based on the elements of a business.

The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

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

The following new/amended HKFRSs, potentially relevant to the Group's 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.

Amendments to HKFRS 16	COVID-19-Related Rent Concessions[1]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current[5]
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use[3]
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract[3]
HKFRS 17	Insurance Contracts and the Related Amendments[5]
Amendments to HKFRS 3	Reference to the Conceptual Framework[4]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[6]
Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020[3]

1 Effective for annual periods beginning on or after 30 June 2021.

2 Effective for annual periods beginning on or after 1 January 2021.

3 Effective for annual periods beginning on or after 1 January 2022.

4 Effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022.

5 Effective for annual periods beginning on or after 1 January 2023.

6 The amendments shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined.

Amendments to HKAS 1, Classification of Liabilities as Current or Non-current and HK Interpretation 5 (2020), Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability and explain that rights are in existence if covenants are complied with at the end of the reporting period. The amendments also introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

HK Int 5 (2020) was revised as a consequence of the Amendments to HKAS 1 issued in August 2020. The revision to HK Int 5 (2020) updates the wordings in the interpretation to align with the Amendments to HKAS 1 with no change in conclusion and do not change the existing requirements.

The directors of the Company do not anticipate that the application of the amendments and revision in the future will have an impact on the consolidated financial statements.

Amendments to HKAS 16, Proceeds before Intended Use

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, the proceeds from selling such items, and the cost of producing those items, is recognised in profit or loss.

The directors of the Company is currently assessing the impact that the application of the amendments will have on the Group's consolidated financial statements.

Amendments to HKAS 37, Onerous Contracts – Cost of Fulfilling a Contract

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (e.g. direct labour and materials) or an allocation of other costs that relate directly to fulfilling contracts (e.g. the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The directors of the Company is currently assessing the impact that the application of the amendments will have on the Group's consolidated financial statements.

HKFRS 17, Insurance Contracts

The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes HKFRS 4, Insurance Contracts. The standard outlines a 'General Model', which is modified for insurance contracts with direct participation features, described as the 'Variable Fee Approach'. The General Model is simplified if certain criteria are met by measuring the liability for remaining coverage using the Premium Allocation Approach.

The directors of the Company do not anticipate that the application of this standard in the future will have an impact on the consolidated financial statements.

Amendments to HKFRS 3, Reference to the Conceptual Framework

The amendments update HKFRS 3 so that it refers to the revised Conceptual Framework for Financial Reporting 2018 instead of the version issued in 2010. The amendments add to HKFRS 3 a requirement that, for obligations within the scope of HKAS 37, an acquirer applies HKAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of HK(IFRIC)-Int 21 Levies, the acquirer applies HK(IFRIC)-Int 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. The amendments also add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the consolidated financial statements.

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

The amendments clarify with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. When the transaction with an associate or joint venture that is accounted for using the equity method, any gains or losses resulting from the loss of control of a subsidiary that does not contain a business are recognised in the profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, any gains or losses resulting from the remeasurement of retained interest in any former subsidiary (that has become an associate or a joint venture) to fair value are recognised in the profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The directors of the Company anticipate that the application of these amendments may have an impact on the consolidated financial statements in future periods should such transaction arise.

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) 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 for the year of HK$4,624,000 and as at 31 December 2020, the Group was in net current liabilities position of approximately HK$1,862,000 and a net deficit of HK$25,292,000.

In preparing the consolidated financial statements, the directors have carefully considered to the current and anticipated future liquidity of the Group.

In order to strengthen the Group's capital base and liquidity in foreseeable future, the directors of the Company have taken the following measures in the preparation of the cash flow forecasts for the period up to June 2022:

– raised addition capital with approximately HK$15,583,000 net cash injection after the Set-off Arrangement with balances approximately of HK$31,445,000 due to Mr. LAU and related expenses approximately of HK$1,614,000 by the completion of a rights issue exercise on 10 February 2021; and

– obtained the letter of support from Mr. LAU that he would not request the Group to repay the amounts due to him (including in the amounts due to related parties) until the Group is in a good financial position to repay.

Based on the Group's cash flow forecasts and with the above measures, 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 years ended 31 December 2020 and 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 2020

	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	**80,949**	**–**	**80,949**
Reportable segment profit/(loss)	**2,772**	**(2,540)**	**232**
Depreciation of plant and equipment	**23**	**–**	**23**
Depreciation of right-of-use assets	**552**	**–**	**552**
Gain on derecognised right-of-use assets	**(468)**	**–**	**(468)**
Gain on deemed disposal of subsidiaries	**(6,269)**	**–**	**(6,269)**
Gain on disposal of subsidiaries	**(3,125)**	**–**	**(3,125)**
Impairment loss on financial assets:			
– Trade and other receivables	**3,771**	**–**	**3,771**
– Amount due from a non-controlling shareholder of a subsidiary	**–**	**386**	**386**
– Amount due from an associate	**224**	**–**	**224**
– Right-of-use assets	**431**	**–**	**431**
Recovery of impairment loss recognised in respect of trade and other receivables	**(1,225)**	**–**	**(1,225)**
Reportable segment assets	**10,420**	**2,408**	**12,828**
Additions to non-current assets	**940**	**–**	**940**
Reportable segment liabilities	**(3,892)**	**(14,820)**	**(18,712)**

	2020
	HK$'000
Revenue	
Reportable segment revenue and consolidated revenue	**80,949**
Profits before income tax	
Reportable segment profit	**232**
Exchange loss	**(55)**
Fair value loss on financial assets at fair value through profit or loss	**(1,025)**
Write back of business tax payables upon deregistration of a subsidiary	**891**
Interest income	**299**
Miscellaneous income	**432**
Motor vehicle expenses	**(38)**
Staff costs (including directors' remunerations)	**(4,958)**
Rental expenses	**(29)**
Corporate expenses	**(3,767)**
Finance costs	**(1,153)**
Consolidated loss before income tax	**(9,171)**
Assets	
Reportable segment assets	**12,828**
Unallocated corporate assets	
– Financial assets at fair value through profit or loss	**4,871**
– Club memberships	**886**
– Cash and cash equivalents	**18,723**
– Others *(Note a)*	**2,027**
Consolidated total assets	**39,335**
Liabilities	
Reportable segment liabilities	**18,712**
Unallocated corporate liabilities	
– Amount due to a related party, Mr. Lau	**39,835**
– Others *(Note b)*	**6,080**
Consolidated total liabilities	**64,627**

Note a: The unallocated corporate assets mainly included plant and equipment and 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 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
Impairment loss recognised in respect of:			
– Trade and other receivables	4,138	–	4,138
– Inventories	95	–	95
– Plant and equipment	4,491	–	4,491
– 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.

(b) Geographical information

During the years ended 31 December 2020 and 2019, the Group's operations and non-current assets are situated in the People's Republic of China ("PRC") in which most 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:

	2020	2019
	HK$'000	*HK$'000*
Customer A	**25,344**	N/A
Customer B	**19,833**	N/A
Customer C	**15,044**	N/A
Customer D	**9,176**	N/A
Customer E*	**N/A**	20,537
Customer F*	**N/A**	19,083
Customer G*	**N/A**	15,494
Customer H*	**N/A**	11,129

* *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 phone	
	2020	2019
	HK$'000	*HKD'000*
Primary geographical market		
PRC	**71,773**	108,455
Hong Kong	**9,176**	–
	80,949	108,455
Major product		
Mobile phone	**80,949**	108,455
Timing of revenue recognition		
At a point in time	**80,949**	108,455

5. OTHER GAINS AND LOSSES

	2020	2019
	HK$'000	*HK$'000*
Exchange loss	**(55)**	(1)
Fair value loss on financial assets at fair value through profit or loss	**(1,025)**	(108)
Impairment loss recognised in respect of inventories	**–**	(95)
Impairment loss recognised in respect of plant and equipment	**–**	(5,166)
Impairment loss recognised in respect of right-of-use assets	**(431)**	(831)
Impairment loss on goodwill	**–**	(6,005)
Recovery of impairment loss on trade and other receivables	**1,225**	–
Write back of business tax payables upon deregistration of a subsidiary	**891**	–
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 derecognised right-of-use assets	**468**	–
Gain on deregistration of an associate	**–**	24
Gain on disposal of subsidiaries	**3,125**	–
Gain on deemed disposal of subsidiaries	**6,269**	–
Government grant *(Note)*	**533**	–
	11,000	(12,229)

Note:

The government grants of HK$533,000 (2019: HK$ Nil) obtained from the Employment Support Scheme ("ESS") under the Anti-epidemic Fund launched by the Hong Kong SAR Government for supporting the payroll of the Group's employees. Under the ESS, the Group had to commit to spend these grants on payroll expenses, and not reduce employee head count below prescribed levels for a specified period of time. The Group does not have other unfulfilled obligations relating to this program.

6. FINANCE COSTS

	2020	2019
	HK$'000	*HK$'000*
Interest on bank borrowing wholly repayable within one year	**166**	–
Interest on lease liabilities	**54**	29
Imputed interest on loan from a related party	**933**	576
	1,153	605

7. INCOME TAX (CREDIT)/EXPENSE

The amount of income tax (credit)/expense in the consolidated statement of comprehensive income represents:

	2020	2019
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax		
– Tax for the year	**27**	–
– Release of provisional tax liabilities	**(4,574)**	–
Current tax – PRC Enterprises Income Tax ("EIT")		
– Tax for the year	**–**	35
	(4,547)	35

Hong Kong

Under the Hong Kong two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying corporations are taxed at 8.25%, and profits above HK$2 million are taxed at 16.5%.

Telefortune (China) Investments Limited, a wholly owned subsidiary of the Group was deregistered on 22 May 2020 and its provisional tax payables of HK$4,574,000 was released to profit or loss accordingly.

PRC

The Group's major operations are being carried out through its subsidiaries established in the PRC and subject to the EIT rate of 25% (2019: 25%), unless preferential rates are applicable in the cities where the subsidiaries are located.

On 18 January 2019, the Ministry of Finance in the PRC issued notice no. 13 of on the Implementation of Inclusive Tax Reduction Policies for Small and Micro Enterprises. Corporations with annual taxable income of less than RMB3 million are qualified for this tax concession. From 1 January 2019 to 31 December 2021, the first RMB1 million of annual taxable income of the qualifying corporation will be taxed at 5%, and further RMB2 million annual taxable income will be taxed at 10%. 浙江澳英信息科技有限公司, a PRC subsidiary of the Group, is entitled to this tax concession during the year ended 31 December 2020.

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

	2020	2019
	HK$'000	*HK$'000*
Loss before income tax	**(9,171)**	(32,741)
Income tax credit at the domestic income tax rate of 25% (2019: 25%) *(Note)*	**(2,293)**	(8,185)
Tax effect of non-deductible expenses	**5,307**	3,378
Tax effect of non-taxable income	**(5,310)**	(198)
Tax effect of tax losses not recognised and utilisation of tax losses and deductible temporary differences	**2,060**	3,720
Effect of tax concession granted	**(27)**	(141)
Effect of different tax rates of group entities operating in other jurisdictions	**290**	1,461
Release of provisional tax liabilities	**(4,574)**	–
Income tax (credit)/expense	**(4,547)**	35

At the end of reporting period, the Group had estimated unrecognised tax losses of approximately HK$177,017,000 (2019: HK$195,169,000) 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$25,055,000 (2019: HK$48,798,000) 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$5,195,000 (2019: HK$4,930,000). 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 BEFORE INCOME TAX

	2020	2019
	HK$'000	*HK$'000*
Loss before income tax is arriving at		
after charging:		
Auditor's remuneration	**1,194**	1,016
Cost of inventories recognised as expenses	**80,558**	107,444
Depreciation of plant and equipment	**23**	1,215
Depreciation of right-of-use assets	**552**	533
Staff costs		
– directors' emoluments	**3,671**	3,594
– salaries and allowances for other staff	**4,833**	5,072
– retirement benefit scheme contribution (excluding directors)	**256**	295
	8,760	8,961
and after crediting:		
Interest income	**299**	87
Recovery of write down of inventories	**–**	370

9. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings per share for the year is based on the profit for the year attributable to owners of the Company of HK$219,000 (2019 loss: HK$26,093,000) divided by 96,697,242 (2019: 96,697,242 (Restated)) ordinary shares in issue during the year.

The number of ordinary shares for the purpose of basic earnings/(loss) per share for 2019 and 2020 has been adjusted for the share consolidation under capital reorganisation and the Rights Issue completed after the end of the reporting period on 11 January 2021 and 10 February 2021 respectively.

The comparative numbers for the prior year have been restated as though that share consolidation and rights issue had taken place on 1 January 2019.

(b) Diluted earnings/(loss) per share

No diluted earnings/(loss) per share is presented as the effect of any potential ordinary shares is anti-dilutive for the years ended 31 December 2020 and 2019.

10. TRADE AND OTHER RECEIVABLES

	2020	2019
	HK$'000	*HK$'000*
Trade receivables	**3,955**	8,379
Less: accumulated allowance	**(3,448)**	(3,250)
	507	5,129
Value-added-tax receivables	**276**	356
Prepayments to suppliers	**28,037**	27,708
Other receivables and deposits	**11,431**	14,509
Less: accumulated allowance	**(36,959)**	(31,199)
Trade and other receivables	**3,292**	16,503

(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:

	2020	2019
	HK$'000	*HK$'000*
0 to 30 days	–	5,023
31 to 90 days	–	25
91 to 365 days	507	81
	507	5,129

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 to Mr. Dai's mother ("Mrs. Dai"). Mr. Dai was a non-controlling shareholder of one of the Group's subsidiaries. The advances were unsecured, non-interest bearing and repayable on demand. During the year ended 31 December 2020, Mrs. Dai partially settled the advances in cash. The remaining balances of HK$2,700,000 due from her was disposed of through the disposal of subsidiaries in September 2020.

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:

	2020	2019
	HK$'000	*HK$'000*
Trade payables:		
0 to 90 days	–	1,269
Over 90 days	248	349
	248	1,618
Value-added-tax payables	–	18
Prepayments from customers	16	1,033
Other payables and accruals	21,760	28,019
	22,024	30,688

12. GOVERNMENT GRANT

A government grant of HK$5,700,000 (2019: 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.

The government grant was disposed of from the Group through the disposal of subsidiaries in September 2020.

13. AMOUNTS DUE FROM/TO RELATED PARTIES

(a) Amounts due from related parties

	2020	2019
	HK$'000	*HK$'000*
Current Assets		
– An entity controlled by Mr. Dai, a non-controlling shareholder of a subsidiary *(Note i & ii)*	**–**	8,960
– Mr. Gao Fei *(Note i)*	**–**	15,889
	–	24,849

Notes:

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

(ii) In April 2020, a tripartite settlement agreement were entered among the Group, Mrs. Dai and the entity controlled by Mr. Dai (the "Borrower"). Mrs. Dai agreed to settle RMB8,000,000 to the Group on behalf the Borrower. Accordingly, the debt was fully settled by Mrs. Dai in cash in the same month.

(b) Amounts due to related parties

	2020	2019
	HK$'000	*HK$'000*
Current Liabilities		
Entities controlled by a non-controlling shareholder of a subsidiary *(Note i)*	**–**	4,412
– Mr. Lau Siu Ying ("Mr. Lau") *(Note i)*	**11,419**	15,344
– Ms. Xiao *(Notes i, ii and iv)*	**–**	5,040
	11,419	24,796
Non-current Liability		
– Mr. Lau *(Notes iii and iv)*	**28,416**	12,224
	39,835	37,020

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.

On 10 July 2020, Mr. Lau advanced HK$15,500,000 (equivalent to US$2,000,000) to the Group which is due on 31 December 2021. The borrowing is carried at amortised cost using an imputed interest rate of 4.65% per annum. The imputed interest portion of HK$1,042,000 was credited to other reserve under the equity attributable to owners of the Company.

On 31 December 2020, the due date of both advances from Mr. Lau have been extended to 28 February 2022.

iv) Upon the completion of the Rights Issue exercise on 10 February 2021, both advances from Mr. Lau of HK$28,416,000 under non-current liabilities and the partial balance approximately of HK$3,029,000 under current liabilities are set-off with amount required to be paid by Mr. Lau for his subscription allotment under the Rights Issue exercise.

EXTRACT OF THE INDEPENDENT AUDITOR'S REPORT

The auditor expressed a qualified opinion in the independent auditor's report on the consolidated financial statements of the Group for the year ended 31 December 2020. 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 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with 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 detailed in Note 24(b) 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 was a non-controlling shareholder of one of the Group's subsidiary in 2019. The Advance was unsecured, non-interest bearing and repayable on demand and as at 31 December 2019, no loss allowance has been recognised in respect of the Advance.

During the year ended 31 December 2020, the Advance was partially settled by Mrs. Dai. The remaining outstanding amount of HK$2,700,000, being included in the trade and other receivables, has been disposed of through the disposal of subsidiaries in 2020. On the date immediately before the disposal of subsidiaries, the directors of the Company considered the credit risk of the Advance has not increased significantly since initial recognition and the loss allowance for the Advance was 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 was immaterial and therefore no loss allowance has been recognised on the date immediately before the disposal. As detailed in Note 33(b) to the consolidated financial statements, the Group recorded a gain on the disposal of subsidiaries of HK$3,125,000.

During our course of audit of 2020 consolidated financial statements, the directors of the Company have not provided us with adequate information about their assessment conclusion that the credit risk of the Advance on the date immediately before the disposal of subsidiaries has 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 was 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. Given these scope limitations, we were unable to determine whether the directors' estimation of expected credit loss allowance on the Advance 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 on the date immediately before the disposal found necessary would increase the impairment loss on financial assets and increase the gain on disposal of subsidiaries recognised in the profit or loss for the year ended 31 December 2020, and would affect the related disclosures thereof in the consolidated financial statements.

As described in Note 38(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 was controlled by Mr. Dai (the "Debt"). The Debt was unsecured, non-interest bearing and as at 31 December 2019, no loss allowance has been recognised in respect of the Debt. During the year ended 31 December 2020, the Debt was fully settled by Mrs. Dai in cash on behalf of the related company controlled by Mr. Dai through a tripartite settlement agreement.

During our audit of the Group's consolidated financial statement for the year ended 31 December 2019 ("2019 consolidated financial statements"), we were 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 and determine whether the Advance and the Debt were fairly stated as at 31 December 2019. Accordingly, we modified our audit opinion on the consolidated financial statements for the year ended 31 December 2019.

The limitations on our scope of work relating to the Advance and the Debt as at 31 December 2019 as stated in the above paragraph remained unresolved during our current year audit. Any adjustments to the expected credit loss allowance of the Advance and the Debt as at 31 December 2019 found necessary would have consequential impact on the amounts of impairment loss on financial assets and the gain on disposal of subsidiaries recognised in the profit or loss for the year ended 31 December 2020. As a result, we are unable to satisfy ourselves as to whether the amounts of impairment loss on financial assets and the gain on disposal of subsidiaries recognised during the year ended 31 December 2020 were appropriately determined.

Our audit opinion on the 2020 consolidated financial statements is also modified because of the possible effect of the audit scope limitations in our audit of the 2019 consolidated financial statements on the comparability of the related 2020 figures and 2019 figures included in the 2020 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.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW AND OUTLOOK

Revenue

For the year ended 31 December 2020, the Group recorded total revenue of HK$80.9 million, which was approximately HK$27.6 million or 25.4% lower than the revenue of HK$108.5 million reported in 2019. The decrease in Group's revenue was mainly due to the decrease in revenue from mobile phone trading business in PRC.

The Group's revenue was derived from mobile phone trading business in PRC and promotion of the mobile application to consumers in current year while revenue was entirely derived from mobile phone trading business in PRC in previous year.

During the year ended 31 December 2020, revenue contribution from promotion of the mobile application to consumers was HK$1.2 million, representing 1.5% of the total revenue of the Group, whereas mobile phone trading business contributed HK$79.7 million or 98.5% of the total revenue of the Group. For the mobile phone trading business, revenue contribution from Shanghai, Hong Kong and Zhejiang was HK$66.6 million, HK$9.2 million and HK$3.9 million respectively, representing 82.3%, 11.4% and 4.8% of the total revenue of the Group.

The decrease in revenue was due to the outbreak of the COVID-19 in early 2020, it has been intensifying and spread across the PRC and have an adverse impact on wholesale and retail of mobile phone markets. The COVID-19 outbreak results global economic slowdown and sluggish consumer spending resulted in slower sales in 2020. Besides, 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 2020.

Gross profit and gross profit margin

The Group's gross profit decreased by 61.3%, from HK$1.0 million for the year ended 31 December 2019 to HK$0.4 million for the year ended 31 December 2020. The decrease of gross profit was due to the scaled back in Group's performance on mobile phone trading business and promotion of the mobile application to consumers business in 2020.

Due to outbreak of COVID-19 which resulted 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 from 0.9% for the year ended 31 December 2019 to 0.5% for the year ended 31 December 2020. Such decrease was due to the increased bargaining power from telecommunications chain stores and mobile carriers which purchasing mobile phone and underperformance of promotion of the mobile application to consumers business which led to a lower gross profit margin.

Other income

Other income was approximately HK$0.8 million for the year ended 31 December 2020, representing an increase of HK$0.3 million or 56.1% when compared to approximately HK$0.5 million for the year ended 31 December 2019. The increase was mainly due to increase of interest income and other miscellaneous income.

Other gains and losses

We had a net gain of HK$11.0 million for the year ended 31 December 2020 and a net loss of HK$12.2 million for the year ended 31 December 2019. For the year ended 31 December 2020, the net gain mainly consisted of gain on deemed disposal of subsidiaries of HK$6.3 million, gain on disposal of subsidiaries of HK$3.1 million, write back of business tax payables upon deregistration of a subsidiary of HK$0.9 million and recovery of impairment loss on trade and other receivables of HK$1.2 million. The turnaround from net loss to net gain in current year was mainly due to an impairment loss recognised in respect of plant and equipment of HK$5.2 million, impairment loss on goodwill of HK$6.0 million were recognised in 2019, while no such loss was recognised in 2020.

Selling and distribution costs

Selling and distribution costs were approximately HK$0.3 million for the year ended 31 December 2020, significant increase when compared to HK$20 thousand for the year ended 31 December 2019. The increase was mainly due to the increase in salaries and allowances and transportation expenses during the current year.

Administrative expenses

The Group's administrative expenses decreased by 10.3% to HK$15.5 million for the year ended 31 December 2020 when compared to last year of HK$17.3 million, which was mainly attributable to the decrease in depreciation and rental expenses.

Finance costs

During the year ended 31 December 2020, finance costs amounted to HK$1.2 million, while HK$0.6 million of finance costs was recorded during the year ended 31 December 2019. The increase of finance costs was due to the imputed interest on loan from a related party, interest on bank borrowing wholly repayable within one year and interest on lease liabilities in current year.

Income tax (credit)/expense

As set out in Note 7 of the announcement, income tax credit amounted to HK$4.5 million for the year ended 31 December 2020, as compared to income tax expense of HK$35 thousand in last year. The turnaround of tax expense to tax credit in current year was mainly due to the release of provisional tax liabilities upon deregistration of a subsidiary of HK$4.6 million.

Profit/(loss) for the year attributable to owners of the Company

As a result of the factors set out above, the Group's profit for the year attributable to owners of the Company amounted to HK$0.2 million for the year ended 31 December 2020, as compared to loss for the year attributable to owners of the Company of HK$26.1 million in last year.

Earnings/(loss) per share

The basic earnings per share was HK$0.23 cents in current year as compared to the basic loss per share of HK$26.98 cents (Restated) in last year.

Financial assets at fair value through profit or loss

As at 31 December 2020 and 2019, 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 in different jurisdictions and engaged in different business.

Inventories

Inventories of HK$26 thousand as at 31 December 2019 and nil inventory was recognised as at 31 December 2020. 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 80.1% from approximately HK$16.5 million as at 31 December 2019 to approximately HK$3.3 million as at 31 December 2020, primarily due to settlement of trade receivables and other receivables.

Cash and cash equivalents

The total cash and cash equivalents amounted to HK$30.1 million as at 31 December 2020 as compared to HK$18.2 million as at 31 December 2019, 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 28.2% from approximately HK$30.7 million as at 31 December 2019 to approximately HK$22.0 million as at 31 December 2020, mainly due to decreased in accrued salaries, prepayments from customers and other payables to third parties along with its business.

Bank borrowing

No bank borrowing was recorded as at 31 December 2020, while bank borrowing amounted to HK$4.5 million as at 31 December 2019.

Liquidity and gearing ratio

The net asset value of the Group attributable to owners of the Company as at 31 December 2020 amounted to HK$16.8 million or HK$0.17 per share when compared to HK$14.0 million or HK$0.14 per share (restated due to the number of ordinary shares has been adjusted for the share consolidation under capital reorganisation and the Rights Issue completed in 2021) as at 31 December 2019. As at 31 December 2020, the Group had net current liabilities of approximately HK$1.9 million when compared to net current liabilities of HK$6.9 million as at 31 December 2019. As at 31 December 2020, the Group had a current ratio of 0.95 times (31 December 2019: 0.90 times). The gearing ratio of the Group, defined as the ratio of the total long term liabilities to the shareholder's equity, was 1.70 and 1.32 as at 31 December 2020 and 2019.

Capital commitments

As at 31 December 2020, the Group did not have any capital expenditure contracted for but not provided in the consolidated financial statements in respect of leasehold improvements (31 December 2019: HK$0.2 million).

Contingent liabilities

As at 31 December 2020, the Group did not have any contingent liabilities or guarantees (31 December 2019: nil).

Material acquisitions and disposals of subsidiaries or associates

The Corporate Action, the Acting-In-Concert and the Deconsolidation

Shanghai Yuanjia, an 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.

On 1 September 2020, Shanghai Yuanjia and Mr. Gao has resolved to terminate the Acting-in-Concert Agreement entered into between Shanghai Yuanjia and Mr. Gao. The decision was made after careful decision by the Board in consideration of (i) the uncertainty of the renewal of a new agreement between Beijing Feiying and Tencent after the expiration of the last agreement as disclosed in the announcement of the Company dated 10 June 2020; and (ii) the uncertain prospects of Beijing Feiying after the expiration of the agreement with Tencent. Furthermore, upon termination of the Acting-in-Concert Agreement with Mr. Gao and the resignation of Mr. Bao as the non-executive Director of the Company, Shanghai Yuanjia no longer has control of the Board of Beijing Feiying. As such, Beijing Feiying can no longer be accounted for as a subsidiary of the Company and will account for it as an associate of the Company.

Beijing Feiying has been reclassified as an associate of the Group's consolidated accounts from 1 September 2020 onwards. Beijing Feiying did not record significant revenue for the year ended 31 December 2020 and the deconsolidation will not have material impact on the net financial position of the Group as both the assets and liabilities of Beijing Feiying will be deconsolidated from the Group's financial statements simultaneously.

Further details regarding the deconsolidation was set out in the announcement dated 1 September 2020.

Disposal of Chongqing Yuanjia

On 29 September 2020, Shanghai Yuanjia, an indirect wholly-owned subsidiary of the Company, entered into the Agreement with Guangzhou Wanchuang, pursuant to which Shanghai Yuanjia has agreed to sell and Guangzhou Wanchuang has agreed to acquire the 51.0% of the share capital of Chongqing Yuanjia for a total consideration of approximately RMB5.8 million (equivalent to approximately HK$6.5 million).

As Guangzhou Wanchuang have agreed to waive the balance of approximately RMB2.6 million (equivalent to approximately HK$2.8 million) owed by Shanghai Yuanjia to Chongqing Yuanjia, the Group have record gain on disposal of subsidiaries of approximately HK$3.1 million.

Further details regarding the disposal was set out in the announcement dated 29 September 2020.

Employees and remuneration policies

As at 31 December 2020, the Group has in total 15 employees as compared to 71 employees as at 31 December 2019. 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

Capital Reorganisation

On 10 November 2020, the Company proposed the capital reorganisation (the "Capital Reorganisation"), which involved: (i) the share consolidation whereby every ten (10) authorised and issued existing shares of HK$0.10 be consolidated into one (1) consolidated share of HK$1.00; (ii) the capital reduction whereby the issued share capital of the Company be reduced by (a) rounding down the number of consolidated shares in the issued share capital of the Company to the nearest whole number by cancelling any fraction of a consolidated share in the issued share capital of the Company arising from the share consolidation; and (b) cancelling the paid up capital of the Company to the extent of HK$0.99 on each of the then issued consolidated shares such that the par value of each issued consolidated share be reduced from HK$1.00 to HK$0.01; and (iii) the share subdivision whereby every authorised but unissued existing share of HK$0.10 be sub-divided into ten (10) adjusted shares of HK$0.01 (the "Adjusted Shares").

Further details regarding the Capital Reorganisation was set out in the announcements of the Company dated 10 November 2020, 25 November 2020, 7 December 2020 and 7 January 2021 and the circular dated 15 December 2020.

Rights Issue

On 10 November 2020, the Company proposed to raise approximately HK$48.6 million, before the Set-off Arrangement and relevant expenses, by way of the rights issue (the "Rights Issue"), by issuing 91,777,944 rights shares at the subscription price of HK$0.53 per rights share on the basis of one (1) rights share for every one (1) adjusted shares held on the Record Date.

The Rights Issue was completed on 10 February 2021. The net proceeds of the Rights Issue were approximately HK$15.6 million.

Further details regarding the Rights Issue was set out in the announcements of the Company dated 10 November 2020, 25 November 2020, 7 December 2020 and 7 January 2021, the circular dated 15 December 2020 and the prospectus dated 19 January 2021.

FINAL DIVIDEND

The Board do not recommend the payment of any dividend in respect of the year (2019: 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 2020. 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.

China had already constructed approximately one million 5G base stations and approximately 160 million of subscribers using applications based on the 5G network by the end of 2020. Moreover, China's fixed-asset investment in the telecommunications sector increased over 15% year-on-year in 2020, approximately one third of total investment in the sector for the 5G technology in China. Investment in 5G helps the global economy overcome the effects of COVID-19 and transition to a post-pandemic economic recovery, with upgrades to 5G adding more than approximately US$600 billion a year to the global economy by 2030. The COVID-19 outbreak in China has driven a major chunk of the workforce online, it made inevitable the huge market prospects for 5G network investments and enabled 5G technology in China. Since the beginning of the epidemic, China has witnessed the faster and more extensive use of 5G in various fields.

Looking back at 2020, China's mobile phone market declined and scaled back due to the international trade conflicts escalated, the impact of COVID-19 outbreak in China, the uncertainties of economic development and China's consumers pulling back on spending, the decline is expected to continue in the coming years but partially offset with the 5G development.

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 was slowdown since 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 and outbreak of the COVID-19 in China 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 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 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 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 2018, 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 years ended 31 December 2020 and 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. According to a decision issued by the Guangzhou Intermediate People's Court dated 19 June 2020, such Court determined to accept an application for winding up filed by another creditor against the Guangzhou supplier. In a later decision issued by the Guangzhou Intermediate People's Court dated 26 October 2020, it was confirmed that the total outstanding liability due by the Guangzhou supplier to the creditors is in the sum of approximately HK$455 million.

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

Prospects and Outlook

The China economy is showing a sign of slowdown resulting from the US-China trade war that has simmered in 2020. 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 in 2020.

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.

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 2020, 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 2020, 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. Fok Wai Ming, Eddie (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 2020 as set out in the 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 the preliminary announcement.

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 2020 containing all the information required by Appendix 16 of the Listing Rules is expected to be published on 29 April 2021 on the same websites and will be despatched to the shareholders of the Company by no later than 30 April 2021.

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, 31 March 2021

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