**China Fortune Holdings Limited**
**中國長遠控股有限公司***

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

**(Stock Code: 110)**

**("the Company")**

# FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST DECEMBER, 2012

The board of directors (the "Board") of China Fortune Holdings Limited (the "Company") announces the audited results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31st December, 2012, together with the comparative figures as follows:

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Notes | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| Turnover | 4 | **623,049** | 1,765,862 |
| Cost of sales | | **(609,374)** | (1,704,539) |
| Gross profit | | **13,675** | 61,323 |
| Other income | | **6,352** | 7,069 |
| Other gains and losses | | **(5,059)** | (4,016) |
| Selling and distribution costs | | **(10,847)** | (14,885) |
| Administrative expenses | | **(26,982)** | (31,823) |
| Finance costs | 5 | **(1,340)** | (6,535) |
| Impairment loss recognised in respect of mining right | | **(60,847)** | – |
| Gain on disposal of a subsidiary | | **–** | 2 |
| Share of result of an associate | | **(106)** | 5 |
| (Loss)/profit before income tax | | **(85,154)** | 11,140 |
| Income tax credit | 6 | **15,215** | 15 |
| (Loss)/profit for the year | 7 | **(69,939)** | 11,155 |

* *For identification purpose only*

| | Notes | **2012** | 2011 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| Other comprehensive income | | | |
| Exchange differences arising on translation of foreign operations | | **4,025** | 22,022 |
| Total comprehensive income for the year | | **(65,914)** | 33,177 |
| (Loss)/profit for the year attributable to: | | | |
| Owners of the Company | | **(43,872)** | 15,922 |
| Non-controlling interests | | **(26,067)** | (4,767) |
| | | **(69,939)** | 11,155 |
| Total comprehensive income attributable to: | | | |
| Owners of the Company | | **(40,974)** | 31,169 |
| Non-controlling interests | | **(24,940)** | 2,008 |
| | | **(65,914)** | 33,177 |
| (Loss)/earnings per share basic and diluted | *8* | **(5.34) cents** | 1.94 cents |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| Non-current Assets | | | |
| Plant and equipment | | **15,094** | 9,861 |
| Mining right | *9* | **394,285** | 452,060 |
| Investment in an associate | | **1,627** | 3,800 |
| Available-for-sale investment | | **69** | 69 |
| Club memberships | | **1,215** | 1,263 |
| Convertible notes receivable | | **2,050** | – |
| | | **414,340** | 467,053 |
| Current Assets | | | |
| Inventories | | **32,875** | 132,365 |
| Trade and other receivables | *10* | **45,038** | 59,894 |
| Bills receivable | | **–** | 1,476 |
| Amounts due from non-controlling shareholders of subsidiaries | | **3,647** | 3,590 |
| Cash and cash equivalents | | **89,371** | 78,370 |
| | | **170,931** | 275,695 |
| Current Liabilities | | | |
| Trade and other payables | *11* | **53,046** | 105,876 |
| Amounts due to related parties | | **969** | 25,369 |
| Taxation payables | | **6,470** | 6,462 |
| Other borrowings | | **15,374** | 15,250 |
| | | **75,859** | 152,957 |
| Net Current Assets | | **95,072** | 122,738 |
| Total Assets less Current Liabilities | | **509,412** | 589,791 |

| | Notes | **2012** | 2011 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| Capital and Reserves | | | |
| Share capital | | **82,166** | 82,166 |
| Reserves | | **191,640** | 232,614 |
| Equity attributable to owners of the Company | | **273,806** | 314,780 |
| Non-controlling interests | | **139,763** | 164,703 |
| | | **413,569** | 479,483 |
| Non-current Liabilities | | | |
| Deferred tax liabilities | | **95,843** | 110,308 |
| | | **509,412** | 589,791 |

*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. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared on the historical cost basis except that certain financial instruments are measured at fair values.

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

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

### (a) Adoption of amendments to HKFRSs – first effective on 1st January, 2012

| | |
|---|---|
| Amendments to HKFRS 1 | Severe Hyper Inflation and Removal of Fixed Dates for First-time Adopters |
| Amendments to HKFRS 7 | Disclosures – Transfers of Financial Assets |
| Amendments to HKFRS 12 | Deferred Tax – Recovery of Underlying Assets |

The adoption of these amendments to HKFRSs has no significant impact on the Group's financial statements.

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

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

| | |
|---|---|
| HKFRSs (Amendments) | Annual Improvements 2009-2011 Cycle[2] |
| Amendments to HKAS 1 (Revised) | Presentation of Items of Other Comprehensive Income[1] |
| Amendments to HKAS 32 | Presentation – Offsetting Financial Assets and Financial Liabilities[3] |
| Amendments to HKFRS 7 | Disclosures – Offsetting Financial Assets and Financial Liabilities[4] |
| HKFRS 9 | Financial Instruments[4] |
| HKFRS 10 | Consolidated Financial Statements[2] |
| HKFRS 12 | Disclosure of Interests in Other Entities[2] |
| HKFRS 13 | Fair Value Measurement[2] |
| HKAS 27 (2011) | Separate Financial Statements[2] |
| HKAS 28 (2011) | Investments in Associates and Joint Ventures[2] |
| HK(IFRIC) – Interpretation 20 | Stripping Costs of the Production Phase of a Surface Mine[2] |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) | Investment entities[3] |

[1] *Effective for annual periods beginning on or after 1st July, 2012*
[2] *Effective for annual periods beginning on or after 1st January, 2013*
[3] *Effective for annual periods beginning on or after 1st January, 2014*
[4] *Effective for annual periods beginning on or after 1st January, 2015*

The Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs and the directors so far concluded that the application of these new/revised HKFRSs will have no material impact on the Group's financial statements.

## 4. SEGMENT INFORMATION AND TURNOVER

**(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 31st December, 2012, 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

Inter-segment transactions are priced with reference to prices charged to external parties for similar order. 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 31st December, 2012**

| | Mobile phone business | Mining business | Total |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Reportable segment revenue from external customers | **623,049** | **–** | **623,049** |
| Reportable segment loss | **(12,416)** | **(65,525)** | **(77,941)** |
| Loss on disposal of plant and equipment | **8** | **80** | **88** |
| Depreciation and amortisation | **1,076** | **685** | **1,761** |
| Impairment loss recognised in respect of trade receivables | **3,321** | **–** | **3,321** |
| Impairment loss recognised in respect of mining right | **–** | **60,847** | **60,847** |
| Write down of inventories | **2,346** | **–** | **2,346** |
| Recovery of write down of inventories | **(2,388)** | **–** | **(2,388)** |
| Reportable segment assets | **166,318** | **411,712** | **578,030** |
| Additions to non-current assets | **940** | **6,059** | **6,999** |
| Reportable segment liabilities | **(36,100)** | **(127,172)** | **(163,272)** |

| | 2012 |
|---|---|
| | *HK$'000* |
| **Revenue** | |
| Reportable segment revenue and consolidated revenue | **623,049** |
| **Loss before income tax** | |
| Reportable segment loss | **(77,941)** |
| Interest income | **2,898** |
| Impairment loss recognised in respect interest in associate | **(857)** |
| Miscellaneous loss | **(17)** |
| Corporate expenses | **(7,791)** |
| Share of result of an associate | **(106)** |
| Finance costs | **(1,340)** |
| Consolidated loss before income tax | **(85,154)** |
| **Assets** | |
| Reportable segment assets | **578,030** |
| Unallocated corporate assets | |
| – Investment in an associate | **1,627** |
| – Others | **5,614** |
| Consolidated total assets | **585,271** |
| **Liabilities** | |
| Reportable segment liabilities | **163,272** |
| Unallocated corporate liabilities | **8,430** |
| Consolidated total liabilities | **171,702** |

For the year ended 31st December, 2011

| | Mobile phone business *HK$'000* | Mining business *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| Reportable segment revenue from external customers | 1,764,271 | 1,591 | 1,765,862 |
| Reportable segment profit/(loss) | 34,951 | (6,651) | 28,300 |
| Loss on disposal of plant and equipment | 2 | 948 | 950 |
| Depreciation and amortisation | 1,228 | 655 | 1,883 |
| Write down of inventories | 5,944 | – | 5,944 |
| Recovery of write down of inventories | (6,162) | – | (6,162) |
| Reportable segment assets | 269,673 | 466,251 | 735,924 |
| Additions to non-current assets | 229 | 3,574 | 3,803 |
| Reportable segment liabilities | (87,852) | (142,222) | (230,074) |

| | 2011 |
|---|---|
| | *HK$'000* |
| **Revenue** | |
| Reportable segment revenue and consolidated revenue | 1,765,862 |
| **Profit before income tax** | |
| Reportable segment profit | 28,300 |
| Interest income | 1,385 |
| Impairment loss recognised in respect of goodwill | (2,910) |
| Miscellaneous loss | (245) |
| Corporate expenses | (8,862) |
| Gain on disposal of a subsidiary | 2 |
| Share of result of an associate | 5 |
| Finance costs | (6,535) |
| Consolidated profit before income tax | 11,140 |
| **Assets** | |
| Reportable segment assets | 735,924 |
| Unallocated corporate assets | |
| – Investment in an associate | 3,800 |
| – Others | 3,024 |
| Consolidated total assets | 742,748 |
| **Liabilities** | |
| Reportable segment liabilities | 230,074 |
| Unallocated corporate liabilities | 33,191 |
| Consolidated total liabilities | 263,265 |

### (b) Geographical information

During 2012 and 2011, the Group's operations and non-current assets are situated in the PRC in which all of its revenue was derived.

### (c) Information about major customer

During 2012 and 2011, there was no customer with whom transactions have exceeded 10% of the Group's revenue.

### (d) Turnover

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

## 5. FINANCE COSTS

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interests on: | | |
| Bank and other borrowings wholly repayable within five years | **1,292** | 2,624 |
| Promissory notes | **–** | 3,895 |
| Bills discounting | **48** | 16 |
| | **1,340** | 6,535 |

## 6. INCOME TAX CREDIT

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| The amount of income tax credit in the consolidated statement of comprehensive income represents: | | |
| Current tax – PRC Enterprise Income Tax ("EIT"): | | |
| – under/(over) provision in respect of prior year | **23** | (15) |
| Deferred tax | **(15,238)** | – |
| Income tax credit | **(15,215)** | (15) |

Fortune (Shanghai) International Trading Co., Ltd and 上海遠嘉國際貿易有限公司 were established in Shanghai Waigaoqiao Free Trade Zone, the PRC; and 珠海市雷鳴達通訊設備有限公司 was established in Zhuhai Special Economic Zone, the PRC. For the year ended 31st December, 2012, these PRC subsidiaries were subject to the EIT rate of 25% (2011: preferential EIT rate of 24%). 黃石鍶發礦業有限公司 was established in the PRC and subject to the EIT rate of 25% (2011: 25%).

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

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

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| (Loss)/profit before income tax | **(85,154)** | 11,140 |
| Tax (credit)/charge at the domestic income tax rate of 25% (2011: 24%) *(note)* | **(21,289)** | 2,674 |
| Tax effect of share of result of an associate | **27** | (1) |
| Tax effect of expenses not deductible for tax purpose | **1,984** | 3,414 |
| Tax effect of income not taxable for tax purpose | **(374)** | (165) |
| Tax effect of tax losses not recognised and utilisation of deductible temporary differences | **3,644** | (6,812) |
| Under/(over) provision in respect of prior year | **23** | (15) |
| Effect of different tax rates of group entities operating in other jurisdictions | **770** | 890 |
| Tax credit for the year | **(15,215)** | (15) |

At the end of reporting period, the Group had estimated unused tax losses of approximately HK$176,357,000 (2011: HK$247,231,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the estimated unused tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately HK$74,160,000 (2011: HK$150,303,000) that may be carried forward for a period of five years from their respective year of origination. Other losses may be carried forward indefinitely.

At the end of reporting period, the Group also had deductible temporary differences of approximately HK$16,049,000 (2011: HK$25,241,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

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

## 7. (LOSS)/PROFIT FOR THE YEAR

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| (Loss)/profit for the year has been arrived at after charging: | | |
| Auditor's remuneration | **942** | 855 |
| Cost of inventories recognised as expense | **609,374** | 1,704,539 |
| Write down of inventories | **2,346** | 5,944 |
| Recovery of write down of inventories | **(2,388)** | (6,162) |
| Amortisation of mining right | **107** | – |
| Depreciation of plant and equipment | **1,787** | 1,896 |
| *Less:* capitalised in construction in progress | **(99)** | – |
| | **1,688** | 1,896 |
| Staff costs | | |
| – directors' emoluments | **4,375** | 3,975 |
| – other staff costs | **10,696** | 13,762 |
| – retirement benefit scheme contribution (excluding directors) | **1,784** | 2,581 |
| | **16,855** | 20,318 |
| and after crediting: | | |
| Service income from provision of logistics and promotion services | **1,522** | 3,919 |
| Interest income | **2,898** | 1,385 |
| Government grants | **1,048** | 1,183 |

## 8. (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$43,872,000 (2011: profit of HK$15,922,000) and the weighted average number of 821,663,442 shares in issue during the year (2011: 821,663,442 shares in issue).

The computation of diluted (loss)/earnings per share does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price for shares for both 2012 and 2011.

## 9. MINING RIGHT

| | *HK$'000* |
|---|---|
| **COST** | |
| At 1st January, 2011 | 434,240 |
| Exchange adjustments | 18,400 |
| At 31st December, 2011 | 452,640 |
| Exchange adjustments | 3,680 |
| At 31st December, 2012 | 456,320 |
| **ACCUMULATED AMORTISATION AND IMPAIRMENT** | |
| At 1st January, 2011 | 557 |
| Exchange adjustments | 23 |
| At 31st December, 2011 | 580 |
| Amortisation provided for the year | 107 |
| Impairment for the year | 60,847 |
| Exchange adjustments | 501 |
| At 31st December, 2012 | 62,035 |
| **CARRYING VALUE** | |
| At 31st December, 2012 | 394,285 |
| At 31st December, 2011 | 452,060 |

The mining right represents the right of a mining company in the Group ("Sifa Mining") to conduct mining activities in Huangshi City, Hubei Province, the PRC. The mining right is amortised using the units of production method based on the proven and probable mineral reserves. Sifa Mining obtained mining operating permit without any restrictions for a 5-year term, which was renewable. After the expiration of this 5-year mining operating permit on 25th September, 2012, the Ministry of Land and Resources of the PRC（中華人民共和國國土資源部）had renewed a mining operating permit, under which Sifa Mining is restricted to exploration activities only, for a term of 2 years from 25th September, 2012 to 25th September, 2014. Exploitation activities are prohibited under the aforesaid 2-year mining operating permit. In the opinion of the directors, Sifa Mining is currently constructing a new mining site exploitation system so that the restriction has no adverse effect to the mining operation and Sifa Mining is able to fulfill the exploitation requirements set out by the Ministry of Land and Resources of the PRC and is able to obtain/renew the mining operating permit without any restrictions until all the proven and probable minerals have been mined. The directors also consider that the applications for release of the said restriction and further renewal of the mining operating permit are procedural and without significant costs.

The exploitation on the first phase was completed in 2010. Sifa Mining commenced developing a new mining site exploitation system in the next phase since then. However, the development had been inevitably and adversely affected by the downturn of the global mineral resources demand since second half of 2012. Although it is expected that the downturn is temporary and only being a normal cycle adjustment in the industry, the management proceeded in a prudent way to restructure the overall construction schedule of this new mining system, by readjusting construction speed and time schedule for matching the industry cycle accordingly. Besides, the management is exploring all commercially viable opportunities to maximise the return from this investment.

The directors have carefully reviewed the recoverable amount of the cash-generating unit of the mining business to which the mining right is allocated by reference to the professional valuation as at 31st December, 2012, performed by Cushman & Wakefield Valuation Advisory Services (HK) Ltd.. The recoverable amount of the cash-generating unit was determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management at a discount rate of 17.7% (2011: 16.0%) and a steady growth rate of 3.0% (2011: 3.2%). The key assumptions adopted in the value in use calculation relate to the renewal of mining operating permit, estimated reserves, estimated productivity and the estimated prices of mineral resources.

Based on the above review, with the consideration of the readjusting construction speed and time schedule for matching the industry cycle, the directors of the Company are of the opinion that the recoverable amount of the cash-generating unit is lower than its carrying value as at 31st December, 2012. Accordingly, the shortfall of HK$60,847,000 was recognised as impairment loss on mining right.

At 31st December, 2012, 100,000 tons (2011: 100,000 tons) minerals included in the underlying reserves were pledged to the other borrowings.

## 10. TRADE AND OTHER RECEIVABLES

| | 2012 | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **24,359** | 30,066 |
| *Less:* accumulated allowance | **(17,431)** | (14,083) |
| | **6,928** | 15,983 |
| Value-added-tax receivables | **4,383** | 2,756 |
| Rebates receivable | **7,277** | 11,988 |
| Prepayments to suppliers | **11,515** | 16,335 |
| Other receivables and deposits | **18,090** | 15,962 |
| *Less:* accumulated allowance | **(3,155)** | (3,130) |
| Trade and other receivables | **45,038** | 59,894 |

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

| | 2012 | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 to 30 days | **2,420** | 11,412 |
| 31 to 90 days | **707** | 2,438 |
| 91 to 365 days | **453** | 2,133 |
| Over 365 days | **3,348** | – |
| | **6,928** | 15,983 |

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

## 11. TRADE AND OTHER PAYABLES

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

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade payables: | | |
| 0 to 30 days | **411** | 1,463 |
| 31 to 90 days | **234** | 128 |
| Over 90 days | **157** | 305 |
| | **802** | 1,896 |
| Rebates payable | **22,550** | 76,291 |
| Prepayments from customers | **10,683** | 9,615 |
| Other payables and accruals | **19,011** | 18,074 |
| | **53,046** | 105,876 |

## FINAL DIVIDEND

No dividend has been proposed for the year ended 31st December, 2012 and 2011.

## REVIEW AND OUTLOOK

### Financial Review

Being a fulfillment distributor for Nokia Stores in the People's Republic of China ("PRC") since 2006, our turnover continued to drop in the same trend with Nokia in the year, leading to a loss of HK$12.4 million incurred in this business segment, as compared to a segment profit of HK$35.0 million in last year. For our mining business which underwent development and construction of a new mining exploitation system throughout the year, exploitation of minerals was minimal. Owing to a revised forecast adopted in the year for the valuation of mining right, an impairment loss on mining right of HK$60.8 million was recognised in the year, with details set out in note 9 on page 14 of this announcement. By offsetting with a HK$15.2 million deferred tax credit associated with this mining right impairment, the net effect of this impairment to the financial result in this year was HK$45.6 million. In aggregate, the Group incurred a loss of HK$69.9 million in this year, as compared to a profit of HK$11.2 million in last year.

The Group recorded a substantial drop in the consolidated revenue from HK$1,765.9 million in last year to HK$623.0 million in this year. The gross profit amounted to HK$13.7 million, a decrease when compared to the last year of HK$61.3 million. The gross margin percentage during the year was 2.2% which was lower than the last year of 3.5% due to the worsened gross margin achieved in the fulfillment distribution business in this year. The other gains and losses in this year consisted a one-off impairment loss recognised in respect of interest in an associate amounted to HK$0.9 million, and an impairment loss recognised in respect of trade receivable for a customer amounted to HK$3.3 million.

The selling and distribution costs amounted to HK$10.8 million when compared to the last year of HK$14.9 million as the overall revenue achieved during the year was comparably much lower than the last year in the fulfillment distribution business for Nokia Stores. The administrative expenses amounted to HK$27.0 million, a decrease when compared to the last year of HK$31.8 million mainly due to reduced staff number and so as the staff costs incurred in the year.

As far as the mobile phone retail chain and wholesale business in Zhuhai was concerned, the revenue achieved during the year amounted to HK$238.7 million, increased by 447% as compared with last year of HK$43.6 million. However, owing to the fierce competitive business environment this retail chain facing, the Group still shared a loss from it during this year. The Group shared a net loss of HK$106,000 from the result of an associate during the year as compared to a net gain of HK$5,000 in last year. As the performance of this associate was unpromising so far since this associate was invested by the Group, an impairment loss was recognised in it in the year.

The finance costs decreased from HK$6.5 million in last year to HK$1.3 million in this year. There was an interest expense for promissory notes amounted to HK$3.9 million in last year but no such interest incurred in this year.

The net asset value of the Group attributable to owners of the Company as at 31st December, 2012 amounted to HK$273.8 million or HK$0.33 per share when compared to HK$314.8 million or HK$0.38 per share as at 31st December, 2011. The basic loss per share was 5.34 Hong Kong cents as compared to the basic earnings per share of 1.94 Hong Kong cents in last year.

As at 31st December, 2012, the Group's aggregate other borrowings amounted to HK$15.4 million when compared to HK$15.3 million as at 31st December, 2011, which was maintained at a similar level.

The gearing ratio of the Group, defined as the ratio of the total long term liabilities to the shareholder's equity, was 0.35 as at 31st December, 2011 and 2012.

The total cash and cash equivalents amounted to HK$89.4 million as at 31st December, 2012 without any deposit pledged to banks. The Group is financed by a combination of its equity capital, cash flow generated from its operation and other borrowings. During the year, there was no material change in the funding and treasury policy of the Group. The Group considers there is no material potential currency exposure as the majority of its revenue and expenses are derived and incurred all in Renminbi in the PRC. It is the treasury policy of the Group to manage its foreign currency exposure whenever its financial impact is material to the Group.

The inventories of the Group as at 31st December, 2012 amounted to HK$32.9 million, when compared to HK$132.4 million as at 31st December, 2011, mainly since less inventories kept for the fulfillment distribution business for Nokia Stores as driven by a reduced turnover volume in the year. The inventory turnover period was 34 days in this year when compared to 36 days of last year. The Group will continue to apply strict policy in inventory control in the future.

The amount of trade and other receivables as at 31st December, 2012 was HK$45.0 million, when compared to HK$59.9 million as at 31st December, 2011. Trade receivables mainly comprised receivables from the fulfillment distribution business for Nokia Stores. In order to minimize the credit risk for the trade receivables, the Group has implemented strict control on the determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the revenue generated from the fulfillment distribution business for Nokia Stores is mainly on cash basis which further reduces the credit risk of the Group.

As at 31st December, 2012, the Group had in total 159 employees as compared to 224 employees as at 31st December, 2011. Employees were remunerated according to the nature of their job duties and market trend. The Group provided staff welfare and fund contribution to its employees in accordance with the prevailing regulations in the PRC and Hong Kong. There was no material change in the remuneration policy, bonus scheme and share option scheme during the year. The Group has a share option scheme under which the Company may grant share options to the participants, including directors and employees, to subscribe for shares of the Company.

## OPERATIONAL REVIEW

### Market Overview

According to the statistics released by the Ministry of Industry and Information Technology of the People's Republic of China ("MII"), there were more than 1.1 billion subscribers to mobile phone services in the PRC as at the end of January 2013, equivalent to a penetration rate of 82.6 users per 100 persons. 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".

As one of the integrated fulfillment distributors in the PRC, the Group provides all necessary services, which include but not limited to transaction handling, credit financing, delivery, rebate execution, stock buffering and B2B system integration, etc. In return, the Group receives a contractual margin, as well as various rebates as its service income. This business model is more transparent, allowing the buyers, the suppliers and the Group to share common information and enhances the efficiency of all the activities of the value chain.

**Business Review**

***Handset Distribution***

Nokia, who was the biggest mobile phone manufacturer for over a decade, lost its market share in the mobile phone industry substantially to Apple Inc. and various brands of handsets with the Android platform in these few years. Changes in handset application habit of consumers turn popular handsets from mobile-phone-based into smartphone-based. In view of this, without launching the popular Android-based smartphone, Nokia decided to collaborate with Microsoft Windows Phone in 2011. Nevertheless, the market has been expecting the new Nokia handsets with Windows 8 system long enough, and which were eventually launched in late 2012. The market still needs further time to see whether more high-end smartphone models from Nokia can turn it around to increase its market share.

The Group has been a distributor of Nokia handsets since incorporation. So the recent situation of Nokia directly and substantially led to a downturn of revenue of the Group in the year. The Group paid special attention and efforts in mitigating the effect and risks in the Nokia Store fulfillment distribution business by lowering the inventory level to a minimal amount. The management will keep monitoring this business segment and take timely and appropriate action when necessary.

***Investment in mobile phone operating system***

On 29th December, 2012, the Group subscribed a convertible bond issued by Jolla Oy, which is a newly established company in Finland and engaged in mobile phone operating system development. After full conversion of the convertible bond into shares of Jolla Oy and together with further subscriptions, the Group acquired approximately 6.25% equity interest in Jolla Oy with an aggregate consideration of HK$10.2 million in March 2013. Although Jolla Oy is a newly established company in Finland, its team consists of well-experienced programmers and developers of mobile phone operating system. Jolla Oy's coming innovative and brand new mobile phone operating system is expected to bring new impact and opportunity to the market.

### *Mining*

We commenced developing a new mining site exploitation system in our Strontium mining site since 2010. After the expiration of a five-year mining operating permit on 25th September, 2012, Sifa Mining obtained a two-year renewed one, in which Sifa Mining is restricted to exploration activities over the mining site only. After further submissions of relevant technical documentations to the Ministry of Land and Resources of the PRC for fulfilling exploitation requirements, a restriction-free mining operating permit can be renewed on or before the expiry of this two-year permit. No material and significant adverse effect in Sifa Mining's operation is foreseen with this exploitation restriction, since the mining site is undergoing the new exploitation system construction stage without normal exploitation activities scheduled in the relevant period, and a further renewal of a restriction-free mining operating permit is assessed to be procedural. However, the development plan and construction progress in this new system had been inevitably and adversely affected by the downturn of the global mineral resources demand in the second half of the year and up to the current moment. Although it is expected that the downturn is temporary and only being a normal cycle adjustment in the industry, the management proceeded in a prudent way to restructure the overall construction schedule of this new mining system, by readjusting construction speed and time schedule for matching the industry cycle accordingly. As a result, we took the view that the recoverable amount of this cash-generating unit of the mining business is lower than its carrying value at 31st December, 2012. Accordingly, the shortfall of HK$60.8 million was recognised as impairment loss on mining right in this year. By offsetting with a HK$15.2 million deferred tax credit associated with this mining right impairment, the net effect of this impairment to the financial result in this year was HK$45.6 million.

## Prospect and Outlook

The continued economic growth in the PRC is fuelled by a high internal consumption. As the world's biggest handset market, there were more than 1.1 billion handset subscribers in the PRC with an annual growth rate of around 10% in terms of new subscribers and replacements. There were over 21.9% 3G users out of the total subscribers, and forecasted to increase much further in the near future. On the other hand, there were more than 787 million mobile Internet users which implies that there are huge business opportunities in both mobile application and mobile commerce. Since the Group has been in the related mobile phone industry for decades, mobile phone operating system and mobile internet would be surely the key business areas that the Group is interested in. So besides the recent investment in Jolla Oy, the Group is actively looking for further opportunities which will further enhance the shareholders' value.

## PURCHASE, SALE OR REDEMPTION OF SHARES AND LISTED SECURITIES OF THE COMPANY

During the year ended 31st December, 2012, 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 adopted the Code on Corporate Governance Practices (the "CGP Code") during the period from 1st January, 2012 to 31st March, 2012 and the Corporate Governance Code ("CG Code") during the period from 1st April, 2012 to 31st December, 2012 introduced in Appendix 14 of the Listing Rules by the Stock Exchange to maintain a high standard of corporate governance so as to improve the corporate transparency and protect the interests of the Company's shareholders. The Company has complied with the CGP Code during the period from 1st January, 2012 to 31st March, 2012 and the CG Code during the period from 1st April, 2012 to 31st December, 2012, except that:

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

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

## AUDIT COMMITTEE

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

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

## PUBLICATION OF THE RESULTS ON THE STOCK EXCHANGE'S WEBSITE

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

## SCOPE OF WORK OF BDO LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31st December, 2012 as set out in this preliminary announcement have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagement issued by the HKICPA and consequently no assurance has been expressed by BDO Limited on this preliminary announcement.

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

Hong Kong, 26th March, 2013

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