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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2021

INTERIM RESULTS

The board of directors (the "Board") of China Fortune Holdings Limited (the "Company") presents the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2021, together with the comparative figures set out below. These condensed consolidated interim results have not been audited, but have been reviewed by the audit committee (the "Audit Committee") of the Company.

* *For identification purpose only*

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2021

	Notes	Six months ended **30/6/2021** *HK$'000* (unaudited)	30/6/2020 *HK$'000* (unaudited)
Revenue	4	**53,706**	21,414
Cost of sales		**(53,652)**	(20,686)
Gross profit		**54**	728
Other income		**507**	297
Other gains and losses		**446**	2,559
Selling and distribution costs		**–**	(304)
Administrative expenses		**(5,637)**	(8,437)
Finance costs	5	**(161)**	(458)
Loss before income tax		**(4,791)**	(5,615)
Income tax expense	6	**–**	–
Loss for the period	7	**(4,791)**	(5,615)
Loss for the period attributable to:			
Owners of the Company		**(3,526)**	(2,878)
Non-controlling interests		**(1,265)**	(2,737)
		(4,791)	(5,615)
			(Restated)
Loss per share			
Basic	8	**(2.10) cents**	(2.98) cents
Diluted	8	**N/A**	N/A

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	Six months ended	
	30/6/2021	30/6/2020
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Loss for the period	**(4,791)**	(5,615)
Other comprehensive income that may be subsequently transferred to profit or loss		
Exchange differences arising on translation from functional currency to presentation currency	**(293)**	2,800
Total comprehensive income for the period	**(5,084)**	(2,815)
Total comprehensive income for the period attributable to:		
Owners of the Company	**(3,529)**	(634)
Non-controlling interests	**(1,555)**	(2,181)
	(5,084)	(2,815)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2021

	Notes	30/6/2021 HK$'000 (unaudited)	31/12/2020 HK$'000 (audited)
Non-current assets			
Plant and equipment		**46**	26
Mining right		**–**	–
Right-of-use assets		**281**	110
Financial assets at fair value through profit or loss		**3,996**	3,964
Club memberships		**888**	886
Investments in associates		**2,400**	–
		7,611	4,986
Current assets			
Trade and other receivables	9	**1,032**	3,292
Amounts due from non-controlling shareholders of subsidiaries		**173**	28
Financial assets at fair value through profit or loss		**745**	907
Cash and cash equivalents		**37,384**	30,122
		39,334	34,349
Current liabilities			
Trade and other payables	10	**21,067**	22,024
Amount due to a related party	12	**6,550**	11,419
Amounts due to non-controlling shareholders of subsidiaries		**469**	465
Tax payables		**1,862**	1,847
Lease liabilities		**406**	456
		30,354	36,211
Net current assets/(liabilities)		**8,980**	(1,862)
Total assets less current liabilities		**16,591**	3,124

	Notes	**30/6/2021**	31/12/2020
		HK$'000	*HK$'000*
		(unaudited)	(audited)
Capital and reserves			
Share capital	11	**1,836**	91,778
Reserves		**58,364**	(75,015)
Equity attributable to owners of the Company		**60,200**	16,763
Non-controlling interests		**(43,609)**	(42,055)
Total equity/(deficit)		**16,591**	(25,292)
Non-current liabilities			
Amount due to a related party	12	**–**	28,416
		16,591	3,124

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2021

	Six months ended	
	30/6/2021	30/6/2020
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Net cash used in operating activities	**(4,542)**	(3,952)
Net cash generated from/(used in) investing activities	**38**	(2)
Net cash generated from financing activities	**11,684**	5,841
Net increase in cash and cash equivalents	**7,180**	1,887
Cash and cash equivalents at 1 January	**30,122**	18,177
Effect of foreign exchange rate changes	**82**	(343)
Cash and cash equivalents at 30 June	**37,384**	19,721

Notes:

1. **GENERAL**

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

The Company is an investment holding company. The principal activities of the Group are distribution and trading of mobile phones and related accessories, development of marketing and after-sales service network and mining and processing of celestite, zinc and lead minerals.

2. **BASIS OF PREPARATION**

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2021 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

These unaudited condensed consolidated interim financial statements should be read in conjunction with the Group's 2020 annual report, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

3. **SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES**

The unaudited condensed consolidated interim financial statements have been prepared on the historical cost basis except that certain financial instruments are measured at fair values.

The accounting policies adopted in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2020, except for the adoption of new/revised standards effective as of 1 January 2021.

The HKICPA has issued a number of new/revised HKFRSs that are first effective for the current accounting period of the Group:

- Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16, Interest Rate Benchmark Reform – Phase 2

The new/revised HKFRSs that are effective from 1 January 2021 did not have any significant impact on the Group's accounting policies. Also, the Group has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

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 six months ended 30 June 2021 and 2020, 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 other income, 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 six months ended 30 June 2021 (unaudited)

	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	**53,706**	**–**	**53,706**
Reportable segment loss	**(635)**	**(548)**	**(1,183)**
Depreciation of right-of-use assets	**205**	**–**	**205**
Recovery of impairment loss recognised in respect of trade and other receivables	**(363)**	**–**	**(363)**
Revenue			
Reportable segment revenue and consolidated revenue			**53,706**
Loss before income tax			
Reportable segment loss			**(1,183)**
Exchange gain			**225**
Fair value loss on financial assets at fair value through profit or loss			**(169)**
Interest income			**61**
Miscellaneous income			**216**
Motor vehicle expenses			**(11)**
Loss on deregistration of a subsidiary			**(5)**
Loss on extinguishment of loan			**(1,218)**
Write back of other payable			**1,250**
Staff costs (including directors' remunerations)			**(2,389)**
Corporate expenses			**(1,407)**
Finance costs			**(161)**
Consolidated loss before income tax			**(4,791)**

As at 30 June 2021 (unaudited)

	Mobile phone business *HK$'000*	Mining business *HK$'000*	Total *HK$'000*
Reportable segment assets	**21,067**	**2,428**	**23,495**
Additions to non-current assets	**375**	**–**	**375**
Reportable segment liabilities	**(6,044)**	**(15,492)**	**(21,536)**

Assets	
Reportable segment assets	**23,495**
Unallocated corporate assets	
– Financial assets at fair value through profit or loss	**4,741**
– Club memberships	**888**
– Cash and cash equivalents	**17,331**
– Others	**490**
Consolidated total assets	**46,945**
Liabilities	
Reportable segment liabilities	**21,536**
Unallocated corporate liabilities	
– Amount due to a related party, Mr. Lau	**6,550**
– Others	**2,268**
Consolidated total liabilities	**30,354**

For the six months ended 30 June 2020 (unaudited)

	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	21,414	–	21,414
Reportable segment loss	(2,664)	(858)	(3,522)
Depreciation of plant and equipment	17	–	17
Depreciation of right-of-use assets	266	–	266
Impairment loss recognised in respect of right-of-use assets	431	–	431
Recovery of impairment loss recognised in respect of trade and other receivables	(6)	–	(6)
Revenue			
Reportable segment revenue and consolidated revenue			21,414
Loss before income tax			
Reportable segment loss			(3,522)
Exchange loss			(2,660)
Fair value gain on financial assets at fair value through profit or loss			174
Write back of business tax payables			891
Write back of income tax payables			4,574
Interest income			39
Gain on disposal of a subsidiary			1
Miscellaneous income			220
Motor vehicle expenses			(22)
Staff costs (including directors' remunerations)			(2,826)
Rental expenses			(14)
Corporate expenses			(2,012)
Finance costs			(458)
Consolidated loss before income tax			(5,615)

As at 30 June 2020 (unaudited)

	Mobile phone business *HK$'000*	Mining business *HK$'000*	Total *HK$'000*
Reportable segment assets	54,667	3,612	58,279
Reportable segment liabilities	(59,692)	(13,779)	(73,471)

	HK$'000
Assets	
Reportable segment assets	58,279
Unallocated corporate assets	
– Financial assets at fair value through profit or loss	5,689
– Club memberships	870
– Cash and cash equivalents	7,908
– Others	352
Consolidated total assets	73,098
Liabilities	
Reportable segment liabilities	73,471
Unallocated corporate liabilities	
– Amount due to a related party, Mr. Lau	25,799
– Others	5,674
Consolidated total liabilities	104,944

(b) Geographical information

During the six months ended 30 June 2021 and 2020, 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) 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	
	Six months ended	
	30/6/2021	30/6/2020
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Primary geographical market		
PRC	**53,706**	21,414
Major product		
Mobile phone	**53,706**	21,414
Timing of revenue recognition		
At a point in time	**53,706**	21,414

5. FINANCE COSTS

	Six months ended	
	30/6/2021	30/6/2020
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Imputed interest on loan from a related party	**152**	290
Interest on bank borrowing wholly repayable within one year	**–**	134
Interest on lease liabilities	**9**	34
	161	458

6. INCOME TAX EXPENSE

For the six months ended 30 June 2021 and 2020, the Group's major operations are being carried out through its subsidiaries established in the PRC and subject to the Enterprises Income Tax (the "EIT") rate of 25%, unless preferential rates are applicable in the cities where the subsidiaries are located.

No provision for Hong Kong Profits Tax has been made as the Group did not have any estimated assessable profits for both periods.

7. LOSS FOR THE PERIOD

	Six months ended 30/6/2021 HK$'000 (unaudited)	30/6/2020 HK$'000 (unaudited)
Loss for the period has been arrived at		
after charging:		
Auditor's remuneration	**423**	596
Depreciation of plant and equipment	**3**	18
Depreciation of right-of-use assets	**205**	266
Staff costs		
– directors' emoluments	**1,655**	1,843
– salaries and allowances for other staff	**1,497**	3,128
– retirement benefit scheme contribution (excluding directors)	**140**	134
	3,292	5,105
and after crediting:		
Interest income	**61**	39

8. LOSS PER SHARE

The calculation of loss per share for the six months ended 30 June 2021 is based on the loss for the period attributable to owners of the Company of HK$3,526,000 (30 June 2020: loss of HK$2,878,000) and the weighted average number of 167,719,781 (30 June 2020: 96,697,242 (Restated)) shares in issue during the period.

The number of shares for the purpose of basic loss per share for the six months ended 30 June 2021 and 2020 has been adjusted for the share consolidation under capital reorganisation and the rights issue completed on 11 January 2021 and 10 February 2021 respectively.

Comparative figures of the weighted average number of shares for calculating basic loss per share has been adjusted on the assumption that the share consolidation and rights issue have been effective in the prior year.

No diluted loss per share is presented as the effect of any potential ordinary shares is anti-dilutive for the periods ended 30 June 2021 and 2020.

9. TRADE AND OTHER RECEIVABLES

	30/6/2021	31/12/2020
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Trade receivables	**3,475**	3,955
Less: accumulated allowance	**(3,475)**	(3,448)
	–	507
Value-added-tax receivables	**274**	276
Prepayments to suppliers	**28,273**	28,037
Other receivables and deposits	**9,728**	11,431
Less: accumulated allowance	**(37,243)**	(36,959)
	1,032	3,292

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:

	30/6/2021	31/12/2020
	HK$'000	*HK$'000*
	(unaudited)	(audited)
91 to 365 days	**–**	507
	–	507

10. 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:

	30/6/2021	31/12/2020
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Trade payables:		
Over 90 days	**32**	248
Prepayments from customers	**16**	16
Other payables and accruals	**21,019**	21,760
	21,067	22,024

11. SHARE CAPITAL

	Notes	Number of ordinary shares		Share capital	
		30/6/2021	31/12/2020	**30/6/2021**	31/12/2020
		'000	*'000*	***HK$'000***	*HK$'000*
		(unaudited)	(audited)	**(unaudited)**	(audited)
Authorised:					
Ordinary shares					
At beginning of the reporting period		**2,000,000**	2,000,000	**200,000**	200,000
Capital Reorganisation	(a)	**18,000,000**	–	**–**	–
At end of the reporting period		**20,000,000**	2,000,000	**200,000**	200,000
Issued and fully paid:					
Ordinary shares					
At beginning of the reporting period		**917,779**	917,779	**91,778**	91,778
Capital Reorganisation	(a)	**(826,001)**	–	**(90,860)**	–
Rights Issue	(b)	**91,778**	–	**918**	–
At end of the reporting period		**183,556**	917,779	**1,836**	91,778

(a) On 11 January 2021, the Company completed a capital reorganisation (the "Capital Reorganisation") which was approved at the special general meeting held on 7 January 2021. Details of which are as follows:

(i) The Company implemented a share consolidation on the basis that every 10 authorised and issued existing shares of HK$0.10 was consolidated into 1 consolidated share of HK$1.00;

(ii) The capital reduction involved 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;

(iii) The share subdivision whereby every authorised but unissued existing share of HK$0.10 were sub-divided into ten (10) adjusted shares of HK$0.01 (the "Adjusted Shares").

After the completion of Capital Reorganisation, the nominal value of authorised, issued and fully paid ordinary shares as at 11 January 2021 and 30 June 2021 were HK$0.01 each (As at 1 January 2021 of HK$0.10 each).

(b) On 10 February 2021, the Company raised gross proceeds of HK$48.6 million before the Set-off Arrangement with amount due to Mr. Lau 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. The number of issued share capital of the Company was increased to 183,555,888. The net proceeds from the Rights Issue after deducting related expenses and Set-off Arrangement with amount due to Mr. Lau was approximately HK$15.6 million.

12. AMOUNT DUE TO A RELATED PARTY

	30/6/2021	31/12/2020
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Current Liabilities		
– Mr. Lau Siu Ying ("Mr. Lau") *(Notes (i) and (iii))*	**6,550**	11,419
Non-current Liability		
– Mr. Lau *(Notes (ii) and (iii))*	**–**	28,416
	6,550	39,835

Notes:

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

(ii) 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.

(iii) Upon the completion of the Rights Issue exercise on 10 February 2021, both advances from Mr. Lau of HK$28,682,000 under non-current liabilities and the partial balance approximately of HK$2,763,000 under current liabilities are set-off with amount to be paid by Mr. Lau for his subscription allotment under the Rights Issue exercise.

13. DIVIDEND

The Board did not declare an interim dividend for the six months ended 30 June 2021 and 2020.

REVIEW AND OUTLOOK

Revenue

For the six months ended 30 June 2021, the Group recorded total revenue of HK$53.7 million, which was approximately HK$32.3 million or 150.8% higher than the revenue of HK$21.4 million reported for the six months ended 30 June 2020. The increase in Group's revenue was primarily attributable to the increase in revenue from mobile phone trading business in PRC.

The Group's revenue was solely derived from mobile phone trading business in PRC in current reporting period. During the six months ended 30 June 2020, revenue contribution from promotion of the mobile application to consumers was HK$1.2 million representing 5.7% of the total revenue of the Group, whereas mobile phone trading business contributed HK$20.2 million or 94.3% of the total revenue of the Group.

The increase in revenue was due to the recovery of economic from the outbreak of COVID-19 in 2021, which has been intensifying and spreading across the PRC and have an adverse impact on wholesale and retail of mobile phone markets since early 2020.

Gross profit and gross profit margin

The Group's gross profit decreased by HK$0.7 million or 92.6%, from approximately HK$0.7 million for the six months ended 30 June 2020 to approximately HK$54 thousand for the six months ended 30 June 2021. The low gross profit level was due to the scaled back in Group's performance on mobile phone trading business since 2019.

The Group's gross profit margin was decreased from 3.4% for the six months ended 30 June 2020 to 0.1% for the six months ended 30 June 2021.

Other income

Other income was approximately HK$0.5 million for the six months ended 30 June 2021, when compared to previous corresponding period of HK$0.3 million.

Other gains and losses

We had a net gain of HK$0.4 million for the six months ended 30 June 2021 and a net gain of HK$2.6 million for the previous corresponding period. For the six months ended 30 June 2021, the net gain mainly consisted of fair value loss on financial assets at fair value through profit or loss of HK$0.2 million, exchange gain of HK$0.2 million and recovery of impairment loss recognised in respect of trade and other receivables of HK$0.4 million. For the six months ended 30 June 2020, the net gain mainly consisted of write back of income tax payables of HK$4.6 million, write back of business tax payables upon deregistration of a subsidiary of HK$0.9 million, exchange loss of HK$2.7 million and impairment loss recognised in respect of right-of-use assets of HK$0.4 million.

Selling and distribution costs

No selling and distribution costs were incurred for the six months ended 30 June 2021 as compared to selling and distribution costs amounted to HK$0.3 million in previous corresponding period. The decrease in selling and distribution costs was mainly due to the deconsolidation of Beijing Feiying on 1 September 2020.

Administrative expenses

The Group's administrative expenses decreased by 33.2% to HK$5.6 million for the six months ended 30 June 2021 when compared to previous corresponding period of HK$8.4 million, which was mainly due to the decrease of depreciation of right-of-use of assets, legal and professional fee, rental expenses, travelling expenses and salaries and allowances.

Finance costs

During the six months ended 30 June 2021, finance costs amounted to HK$0.2 million, while finance costs of HK$0.5 million was recorded in previous corresponding period. The decrease of finance costs was due to the decrease in imputed interest on loan from a related party and interest on bank borrowing in current period.

Income tax expense

No income tax expense were recorded for the six months ended 30 June 2021 and 2020.

Loss for the period attributable to owners of the Company

As a result of the factors set out above, the Group's share of loss amounted to HK$3.5 million for the six months ended 30 June 2021, as compared to HK$2.9 million of loss for the period attributable to owners of the Company in previous corresponding period.

Loss per share

The basic loss per share was HK2.10 cents in current reporting period as compared to the basic loss per share of HK2.98 cents (Restated) in previous corresponding period. No diluted loss per share was presented as the effect of any potential ordinary shares is anti-dilutive for the six months ended 30 June 2021 and 2020.

Financial assets at fair value through profit or loss

As at 30 June 2021 and 2020, 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

No inventories were recorded as at 30 June 2021 and 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 68.7% or HK$2.3 million from approximately HK$3.3 million as at 31 December 2020 to approximately HK$1.0 million as at 30 June 2021, primarily due to the settlement of trade receivables amounted to HK$0.5 million and decrease of prepayments due to the capitalisation of rights issue expenses of approximately HK$1.4 million in current period. No impairment loss on prepayments paid to suppliers was recognised during the six months ended 30 June 2021 and 2020.

Cash and cash equivalents

The total cash and cash equivalents amounted to HK$37.4 million as at 30 June 2021 as compared to HK$30.1 million as at 31 December 2020, without any deposit pledged to banks. During the current period, the Group raised additional capital with approximately HK$15.6 million after the Set-off Arrangement and related expenses by the completion of a rights issue exercise on 10 February 2021.

The Group is financed by a combination of its equity capital, cash flow generated from its operation. During the period, 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 4.3% from approximately HK$22.0 million as at 31 December 2020 to approximately HK$21.1 million as at 30 June 2021, primarily due to decrease in accrual expenses near period end.

Liquidity and gearing ratio

The net asset value of the Group attributable to owners of the Company as at 30 June 2021 amounted to HK$60.2 million or HK$0.36 per share when compared to HK$16.8 million or HK$0.17 per share as at 31 December 2020. As at 30 June 2021, the Group had net current assets of approximately HK$9.0 million when compared to net current liabilities of HK$1.9 million as at 31 December 2020. As at 30 June 2021, the Group had a current ratio of 1.30 times (31 December 2020: 0.95 times). The gearing ratio of the Group, defined as the ratio of the total long term liabilities to the shareholder's equity, was nil and 1.70 as at 30 June 2021 and 31 December 2020.

Capital commitments

As at 30 June 2021, the Group did not have any capital expenditure contracted for but not provided in the unaudited consolidated financial statements in respect of leasehold improvements (31 December 2020: nil).

Contingent liabilities

As at 30 June 2021, the Group did not have any contingent liabilities or guarantees (31 December 2020: nil).

Material acquisitions and disposals of subsidiaries or associates

On 28 May 2021, an indirect wholly-owned subsidiary of the Company (the "Purchaser") and an independent third party (the "Vendor"), entered into a sale and purchase agreement, pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase 25% of the equity interest of Guangzhou Tianping Changying Technology Co., Ltd* (廣州天平長鷹科技有限公司) (the "Target"), a company incorporated in the PRC, at a cash consideration of RMB2,000,001 (equivalent to approximately HK$2,400,000). The Target is principally engaged in the provision of fifth generation wireless communications technology ("5G") and related artificial intelligence ("AI") services. It is also engaged in the development of video-sharing social networking service for the making of a variety of shortform videos using AI technology.

Significant investments held by the Group

During the six months ended 30 June 2021 and 2010, the Group did not make any significant investments.

Employees and remuneration policies

As at 30 June 2021, the Group has in total 10 employees as compared to 15 employees as at 31 December 2020. 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.

DIVIDEND

The Board do not recommend the payment of any interim dividend for the six months ended 30 June 2021 (2020: 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 and first half of 2021, 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 preinstalling 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 deregister 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 year ended 31 December 2020 and six months period ended 30 June 2021.

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 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.

USE OF PROCEEDS

The 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.

Up to 30 June 2021, approximately HK$3.6 million of the net proceeds had been utilised by the Group, with breakdown as follows:

	Allocation of net proceeds as disclosed in the prospectus for the Rights Issue	Utilised amount for the six months ended 30 June 2021	Unutilised amount as at 30 June 2021	Expected timeline for use of unutilised proceeds
	HK$'000	*HK$'000*	*HK$'000*	
Trading and distribution business	8,153	–	8,153	31 December 2021
General working capital *(Note)*	7,445	3,556	3,889	31 December 2021
Total	15,598	3,556	12,042	

Note: A further breakdown of the proceeds applied to general working capital is as follows:

	HK$'000
– Audit fees	1,008
– Salaries and allowances	846
– Directors' fee	393
– Office expenses	352
– Professional fees	323
– Insurance	170
– Rental expenses	164
– Utilities	11
– Others	289
Total	3,556

OTHER INFORMATION

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

During the six months ended 30 June 2021, 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 six months ended 30 June 2021, 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 reelection by the shareholders by rotation.

AUDIT COMMITTEE

The Company has established the Audit Committee in compliance with Rule 3.21 of the Listing Rules. It comprises three members, namely Mr. Leung Wai Hung (Chairman of the Audit Committee), Dr. Law Chun Kwan and Dr. Lo Wai Shun. The Audit Committee has discussed with the management and reviewed the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2021 and this announcement.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Securities Dealing Code on terms no less exacting than the Model Code as set out in Appendix 10 to the Listing Rules to regulate the Directors and employees' dealings in the Company's securities. Having made specific enquiry to all the Directors, all of them confirmed that they have complied with the Model Code and the Securities Dealing Code throughout the period from 1 January 2021 to the date of this announcement. No incident of non-compliance of the Securities Dealing Code by the relevant employees was noted by the Company.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM 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 interim report of the Company for the six months ended 30 June 2021 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the shareholders and published on the websites of the Stock Exchange and the Company in due course.

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

Hong Kong, 30 August 2021

As at the date of this announcement, the Board comprises three executive directors, namely Mr. Lau Siu Ying, Mr. Wang Yu and Mr. Hou Zhenyang; and three independent non-executive directors, namely Dr. Law Chun Kwan, Dr. Lo Wai Shun and Mr. Leung Wai Hung.