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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 Limited)

(Stock Code: 110)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2022

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 2022, 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 2022

	Notes	Six months ended	
		30/6/2022 HK\$'000 (unaudited)	30/6/2021 HK\$'000 (unaudited)
Revenue	5	28,110	53,706
Cost of sales		<u>(28,055)</u>	<u>(53,652)</u>
Gross profit		55	54
Other income		2,943	507
Other gains and losses, net		(79)	83
Administrative expenses		(14,028)	(5,637)
(Impairment losses)/reversal of impairment losses recognised in respect of trade and other receivables		(5)	363
Finance costs	6	<u>(53)</u>	<u>(161)</u>
Loss before income tax		(11,167)	(4,791)
Income tax expense	7	<u>–</u>	<u>–</u>
Loss for the period	8	<u>(11,167)</u>	<u>(4,791)</u>
Loss for the period attributable to:			
Owners of the Company		(7,454)	(3,526)
Non-controlling interests		<u>(3,713)</u>	<u>(1,265)</u>
		<u>(11,167)</u>	<u>(4,791)</u>
Loss per share			
Basic and diluted	9	<u>(4.06) cents</u>	<u>(2.10) cents</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	Six months ended	
	30/6/2022	30/6/2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Loss for the period	<u>(11,167)</u>	<u>(4,791)</u>
Other comprehensive expenses that may be subsequently transferred to profit or loss		
Exchange differences arising on translation from functional currency to presentation currency	<u>(488)</u>	<u>(293)</u>
Total comprehensive expenses for the period	<u>(11,655)</u>	<u>(5,084)</u>
Total comprehensive expenses for the period attributable to:		
Owners of the Company	(9,776)	(3,529)
Non-controlling interests	<u>(1,879)</u>	<u>(1,555)</u>
	<u>(11,655)</u>	<u>(5,084)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022

	<i>Notes</i>	30/6/2022 HK\$'000 (unaudited)	31/12/2021 HK\$'000 (audited)
Non-Current Assets			
Plant and equipment		43	48
Mining right		–	–
Right-of-use assets		2,886	1,049
Interests in associates		2,637	2,757
Financial assets at fair value through profit or loss		2,456	2,578
Club memberships		882	893
		<u>8,904</u>	<u>7,325</u>
Current Assets			
Inventories		–	–
Trade and other receivables	10	7,282	7,830
Amounts due from non-controlling shareholders of subsidiaries		138	137
Financial assets at fair value through profit or loss		591	716
Cash and cash equivalents		15,975	31,504
		<u>23,986</u>	<u>40,187</u>
Current Liabilities			
Trade and other payables	11	24,632	26,360
Amount due to a related party	13	3,569	6,460
Amounts due to non-controlling shareholders of subsidiaries		457	481
Tax payables		1,818	1,910
Lease liabilities		1,503	957
		<u>31,979</u>	<u>36,168</u>
Net Current (Liabilities)/Assets		<u>(7,993)</u>	<u>4,019</u>
Total Assets less Current Liabilities		<u>911</u>	<u>11,344</u>

	<i>Note</i>	30/6/2022 HK\$'000 (unaudited)	31/12/2021 <i>HK\$'000</i> (audited)
Capital and Reserves			
Share capital	<i>12</i>	1,836	1,836
Reserves		42,241	52,018
		<hr/>	<hr/>
Equity attributable to owners of the Company		44,077	53,854
Non-controlling interests		(44,592)	(42,715)
		<hr/>	<hr/>
		(515)	11,139
		<hr/>	<hr/>
Non-Current Liabilities			
Lease liabilities		1,426	205
		<hr/>	<hr/>
Total equity and liabilities		911	11,344
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2022

	Six months ended	
	30/6/2022	30/6/2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash used in operating activities	(10,574)	(4,542)
Net cash generated from investing activities	56	38
Net cash (used in)/generated from financing activities	<u>(4,332)</u>	<u>11,684</u>
Net (decrease)/increase in cash and cash equivalents	(14,850)	7,180
Cash and cash equivalents at 1 January	31,504	30,122
Effect of foreign exchange rate changes	<u>(679)</u>	<u>82</u>
Cash and cash equivalents at 30 June	<u><u>15,975</u></u>	<u><u>37,384</u></u>

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 and mining and processing of celestite, zinc and lead minerals.

The functional currency of the Company is Renminbi (“RMB”). The condensed consolidated financial statements are presented in Hong Kong dollars (“HK\$”) for the convenience of the shareholders, as the Company is listed in Hong Kong.

2. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2022 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 2021 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 2021, except for the adoption of new/revised standards effective as of 1 January 2022.

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

- Amendment to HKFRS 16, Covid-19-related rent concessions beyond 30 June 2021
- Amendments to HKFRS 3 Reference to Conceptual Framework
- Amendments to HKAS 16 Property, Plant and Equipment: Proceeds before Intended Use

- Amendments to HKAS 37 Onerous Contracts — Cost of Fulfilling a Contract
- Amendments to HKFRSs Annual Improvements to HKFRSs 2018-2020 cycle

The application of these new and amendments to HKFRSs in the current interim period had no material impact on the amounts reported and/or disclosures set out in these condensed consolidated financial statements. Also, the Group has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

4. USE OF JUDGEMENTS AND ESTIMATES

In preparing these condensed consolidated financial statements, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2021.

5. 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 2022 and 2021, 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 2022 (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	<u>28,110</u>	<u>–</u>	<u>28,110</u>
Reportable segment loss	<u>(6,824)</u>	<u>(552)</u>	<u>(7,376)</u>
Depreciation of right-of-use assets	697	–	697
Gain on write off of right-of-use assets	(2)	–	(2)
Impairment loss recognised in respect of trade and other receivables	5	–	5
Revenue			
Reportable segment revenue and consolidated revenue			28,110
Loss before income tax			
Reportable segment loss			(7,376)
Exchange gain			12
Fair value loss on financial assets at fair value through profit or loss			(93)
Interest income			56
Miscellaneous income			338
Motor vehicle expenses			(6)
Staff costs (including directors' remunerations)			(2,577)
Corporate expenses			(1,468)
Finance costs			<u>(53)</u>
Consolidated loss before income tax			<u>(11,167)</u>

As at 30 June 2022 (unaudited)

	Mobile phone business HK\$'000	Mining business HK\$'000	Total HK\$'000
Reportable segment assets	<u>19,690</u>	<u>1,723</u>	<u>21,413</u>
Additions to non-current assets	3,003	–	3,003
Reportable segment liabilities	<u>(12,081)</u>	<u>(15,454)</u>	<u>(27,535)</u>
Assets			
Reportable segment assets			21,413
Unallocated corporate assets			
— Financial assets at fair value through profit or loss			3,047
— Club memberships			882
— Cash and cash equivalents			6,639
— Others			<u>909</u>
Consolidated total assets			<u>32,890</u>
Liabilities			
Reportable segment liabilities			27,535
Unallocated corporate liabilities			
— Amount due to a related party, Mr. Lau			3,569
— Others			<u>2,301</u>
Consolidated total liabilities			<u>33,405</u>

For the six months ended 30 June 2021 (unaudited)

	Mobile phone business <i>HK\$'000</i>	Mining business <i>HK\$'000</i>	Total <i>HK\$'000</i>
Reportable segment revenue from contracts with external customers within scope of HKFRS 15	<u>53,706</u>	<u>–</u>	<u>53,706</u>
Reportable segment loss	<u>(635)</u>	<u>(548)</u>	<u>(1,183)</u>
Depreciation of right-of-use assets	205	–	205
Reversal 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)
Waiver of other payable			1,250
Staff costs (including directors' remunerations)			(2,389)
Corporate expenses			(1,407)
Finance costs			<u>(161)</u>
Consolidated loss before income tax			<u>(4,791)</u>

As at 30 June 2021 (unaudited)

	Mobile phone business <i>HK\$'000</i>	Mining business <i>HK\$'000</i>	Total <i>HK\$'000</i>
Reportable segment assets	<u>21,067</u>	<u>2,428</u>	<u>23,495</u>
Additions to non-current assets	375	–	375
Reportable segment liabilities	<u>(6,044)</u>	<u>(15,492)</u>	<u>(21,536)</u>
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			<u>490</u>
Consolidated total assets			<u><u>46,945</u></u>
Liabilities			
Reportable segment liabilities			21,536
Unallocated corporate liabilities			
— Amount due to a related party, Mr. Lau			6,550
— Others			<u>2,268</u>
Consolidated total liabilities			<u><u>30,354</u></u>

(b) Geographical information

During the six months ended 30 June 2022 and 2021, 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 timing of revenue recognition.

Disaggregation of revenue from contracts with customers

	Trading of mobile phone	
	Six months ended	
	30/6/2022	30/6/2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Geographical market		
PRC	22,849	53,706
Hong Kong	5,261	–
	28,110	53,706
Major product		
Mobile phone and related accessories	28,110	53,706
Timing of revenue recognition		
At a point in time	28,110	53,706

6. FINANCE COSTS

	Six months ended	
	30/6/2022	30/6/2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Imputed interest on loan from a related party	–	152
Interest on lease liabilities	53	9
	53	161

7. INCOME TAX EXPENSE

For the six months ended 30 June 2022 and 2021, 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.

8. LOSS FOR THE PERIOD

Six months ended	
30/6/2022	30/6/2021
HK\$'000	HK\$'000
(unaudited)	(unaudited)

Loss before income tax is arriving at after charging/(crediting):

Staff costs

- directors' emoluments
- salaries and allowances for other staff
- retirement benefit scheme contribution

1,702	1,655
3,542	1,497
122	140
5,366	3,292

Auditor's remuneration

516

423

Depreciation of plant and equipment

3

3

Depreciation of right-of-use assets

878

205

and after crediting:

Interest income

56

61

9. LOSS PER SHARE

The calculation of loss per share for the six months ended 30 June 2022 is based on the loss for the period attributable to owners of the Company of HK\$7,454,000 (30 June 2021: loss of HK\$3,526,000) and the weighted average number of 183,555,888 (30 June 2021: 167,719,781) 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 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 2022 and 2021.

10. TRADE AND OTHER RECEIVABLES

	30/6/2022 <i>HK\$'000</i> (unaudited)	31/12/2021 <i>HK\$'000</i> (audited)
Trade receivables	8,865	9,982
Less: Allowance for credit loss	(3,398)	(3,572)
	<u>5,467</u>	<u>6,410</u>
Value-added-tax recoverable	269	284
Prepayments to suppliers	27,425	28,819
Other receivables and deposits	10,162	10,042
	<u>37,856</u>	<u>39,145</u>
Less: Allowance for credit loss	(36,041)	(37,725)
	<u>1,815</u>	<u>1,420</u>
Total trade and other receivables (net of allowances for credit loss)	<u><u>7,282</u></u>	<u><u>7,830</u></u>

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:

	30/6/2022 <i>HK\$'000</i> (unaudited)	31/12/2021 <i>HK\$'000</i> (audited)
0 to 90 days	5,258	6,410
Over 90 days	209	–
	<u>5,467</u>	<u>6,410</u>

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:

	30/6/2022 <i>HK\$'000</i> (unaudited)	31/12/2021 <i>HK\$'000</i> (audited)
Trade payables:		
0 to 90 days	5,263	6,711
Over 90 days	346	33
	5,609	6,744
Value-added-tax payables	9	1
Prepayments from customers	406	89
Other payables and accruals	18,608	19,526
	24,632	26,360

12. SHARE CAPITAL

	Number of ordinary shares	Share capital <i>HK\$'000</i>
Ordinary shares of HK\$0.01 each		
<i>Authorised:</i>		
At 31 December 2021 and 30 June 2022	20,000,000,000	200,000
<i>Issued and fully paid:</i>		
At 31 December 2021 and 30 June 2022	183,555,888	1,836

13. AMOUNT DUE TO A RELATED PARTY

	30/6/2022	31/12/2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)
Mr. Lau Siu Ying	<u>3,569</u>	<u>6,460</u>

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

14. DIVIDEND

The Board did not declare an interim dividend for the six months ended 30 June 2022 and 2021.

REVIEW AND OUTLOOK

Revenue

For the six months ended 30 June 2022, the Group recorded total revenue of HK\$28.1 million, which was approximately HK\$25.6 million or 47.7% lower than the revenue of HK\$53.7 million reported for the six months ended 30 June 2021. 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 and related accessories business in PRC and Hong Kong in current reporting period while revenue was solely derived from mobile phone trading business in PRC in previous reporting period. During the six months ended 30 June 2022, revenue from mobile phone and related accessories trading business was HK\$28.1 million, contribution from Shanghai and Hong Kong was HK\$22.8 million and HK\$5.3 million respectively, representing 81.1% and 18.9% of the total revenue of the Group.

For the six months ended 30 June 2021, revenue from mobile phone trading business was HK\$53.7 million, solely generated from Shanghai.

The decrease in revenue was mainly due to COVID-19 outbreak in the city of Shanghai since April 2022. Shanghai residents have vented about the tight movement restrictions, multiple rounds of massive testing and a strict lockdown of the city, which have taken a heavy toll on the economy, supply chains and forcing business to halt production.

Gross profit and gross profit margin

The Group's gross profit increased from approximately HK\$54 thousand for the six months ended 30 June 2021 to approximately HK\$55 thousand for the six months ended 30 June 2022. 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 increased from 0.1% for the six months ended 30 June 2021 to 0.2% for the six months ended 30 June 2022.

Other income

Other income was approximately HK\$2.9 million for the six months ended 30 June 2022, when compared to previous corresponding period of HK\$0.5 million.

For the six months ended 30 June 2022, the Group's other income increased by HK\$2.4 million was mainly due to HK\$2.5 million (2021: nil) of database traffic monetisation income which was generated from the mobile application business operated by Beijing Daizhangmen in Beijing, the PRC and the government grant of HK\$128,000 (2021: 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 employee.

Other gains and losses

We had a net loss of HK\$79 thousand for the six months ended 30 June 2022 and a net gain of HK\$83 thousand for the previous corresponding period. For the six months ended 30 June 2022, the net losses mainly consisted of fair value loss on financial assets at fair value through profit or loss of HK\$93 thousand and exchange gain of HK\$12 thousand. 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 and exchange gain of HK\$0.2 million.

Administrative expenses

The Group's administrative expenses increased by 150% to HK\$14.0 million for the six months ended 30 June 2022 when compared to previous corresponding period of HK\$5.6 million. The increase in administrative expenses was mainly due to the new mobile application business called Beijing Daizhangmen, in the PRC which involving environmental friendly bag automatic bag taking machine together with the database traffic monetisation business.

This new mobile application business incurred administrative expenses of approximately HK\$8.4 million which mainly included salaries and allowances, packaging fees, advertising and promotion and technical services fee during the period in 2022, of which there was no such administrative expense in the same period of 2021.

Finance costs

During the six months ended 30 June 2022, finance costs amounted to HK\$53 thousand, while finance costs of HK\$0.2 million was recorded in previous corresponding period. The decrease of finance costs was mainly due to no imputed interest on loan from a related party was recorded during the current period.

Income tax expense

No income tax expense was recorded for the six months ended 30 June 2022 and 2021.

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\$7.5 million for the six months ended 30 June 2022, as compared to HK\$3.5 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 HK\$4.06 cents in current period as compared to the basic loss per share of HK\$2.10 cents 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 2022 and 2021.

Financial assets at fair value through profit or loss

As at 30 June 2022 and 31 December 2021, the Group held various listed and 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 property development project carried in the PRC.

Inventories

No inventories were recorded as at 30 June 2022 and 31 December 2021. 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 7.0% or HK\$0.5 million from approximately HK\$7.8 million as at 31 December 2021 to approximately HK\$7.3 million as at 30 June 2022. No impairment loss on prepayments paid to suppliers was recognised during the six months ended 30 June 2022 and 2021.

Cash and cash equivalents

The total cash and cash equivalents amounted to HK\$16.0 million as at 30 June 2022 as compared to HK\$31.5 million as at 31 December 2021, without any deposit pledged to banks. During the previous 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 6.6% from approximately HK\$26.4 million as at 31 December 2021 to approximately HK\$24.6 million as at 30 June 2022, primarily due to decrease in trade payables near period end.

Liquidity and gearing ratio

The net asset value of the Group attributable to owners of the Company as at 30 June 2022 amounted to HK\$44.1 million or HK\$0.24 per share when compared to HK\$53.9 million or HK\$0.29 per share as at 31 December 2021. As at 30 June 2022, the Group had net current liabilities of approximately HK\$8.0 million when compared to net current assets of HK\$4.0 million as at 31 December 2021. As at 30 June 2022, the Group had a current ratio of 0.75 times (31 December 2021: 1.11 times). The gearing ratio of the Group, defined as the ratio of the total long term liabilities to the shareholder's equity, was 0.03 and 0.01 as at 30 June 2022 and 31 December 2021.

Capital commitments

As at 30 June 2022, 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 2021: nil).

Contingent liabilities

As at 30 June 2022, the Group did not have any contingent liabilities or guarantees (31 December 2021: nil).

Material acquisitions and disposals of subsidiaries or associates

During the six months ended 30 June 2022, the Group did not have material acquisitions and disposals of subsidiaries or associates.

Significant investments held by the Group

During the six months ended 30 June 2022, the Group did not make any significant investments.

Employees and remuneration policies

As at 30 June 2022, the Group has in total 42 employees as compared to 43 employees as at 31 December 2021. 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 period. 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 2022 (2021: 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 ("MIIT"), there were approximately 1.63 billion subscribers to mobile phone services in the PRC as of 2021. 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 5G 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 5G mobile phones were introduced to the market as China launched 5G commercialisation at the end of 2019 with the nation's telecom operators rolling out their 5G data plans. China has stepped up its pace of 5G development, adding 654,000 base stations in 2021, 355 million mobile phone users who have adopted 5G as of the end of 2021. Nearly 1.43 million 5G base stations were rolled out in the country, forming the world's largest 5G network and accounting over 60 percent of the global 5G base stations. Moreover, China will have 2 million installed 5G base stations this year to step up expansion of the country's next-generation mobile network, while preparing for the development of the more advanced 6G wireless system in 2022, China will strive to maintain its leadership in 5G, while planning and laying the foundation for research and development on 6G technology.

6G represents the mobile network technology that will succeed 5G, which is still being rolled out in many countries. China, with the world's biggest internet population and largest smartphone market, has already deployed the biggest 5G mobile infrastructure in the industry. China plans to have 26 5G base stations for every 10,000 people by the end of 2025, as the nation works hard to build a new digital infrastructure that is intelligent, green, safe and reliable, based on an estimated national population, means that the nation aims to have about 3.64 million 5G base stations by the end of 2025. In comparison, there is 10.1 5G base stations are serving every 10,000 people in China in 2021.

Looking back at the first half of 2022, China's mobile phone market declined and scaled back due to (i) the international trade conflicts escalated; (ii) the impact of COVID-19 outbreak in China; and (iii) the uncertainties of economic development resulting in the decrease of consumer spending in the PRC, the decline is expected to continue in the coming years but partially offset by the 5G and 6G 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 slowing down 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 to the development of the Group's operations and performance.

Customers focus is expected to gradually shift from the functionality of mobile phone to the shopping experience. Customers will normally require services such as function presentations, digital phone books synchronization and pre-installing software, etc, in purchasing a mobile phone. In the 5G era, the convergence of mobile telecommunications and the internet also led to rapid development of value-added business which requires the retail channels to transform 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 whilst 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".

Though the DLR is unlikely to grant the mining operating permit extension to the Company nor mining operating permit to other market participants at this moment, the Group's management will continue to communicate with their lawyers in the future to resubmit a new application on the extension of the mining operating permit in the future.

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 2021. Though the phase one interim agreement has been made in 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.

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 starting from 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 1.63 billion handset subscribers in the PRC as of 2021 which benefit from preferential mobile internet traffic policies. The significant increase in 5G users and internet users implies that there are huge business opportunities in both mobile application and mobile commerce. Since the Group has been in the related mobile phone industry for decades, big data, mobile phone operating system and mobile internet would be surely the key business areas that the Group is interested in. 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.

The first half of 2022 continues to be affected by the outbreak of the new wave of COVID-19 pandemic in the PRC which the corresponding quarantine and control measures implemented, slowing down economic activities and general business sentiments. There is an ongoing concern 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.

Increase efforts to promote environmental friendly bag automatic bag taking machine and relevant database traffic monetisation business (“Daizhangmen”)

“Daizhangmen” business is an integration of intelligent Internet of Things (“IoT”) terminal that distributes environmentally friendly bags for free to customers. By cutting into the demand of offline environmental protection bags, using the IoT system plus free model to obtain offline traffic, and completing the traffic matching of advertisers, so as to realise the commercial closed loop of database traffic monetisation. That is to complete the social value of environmental protection, and realise the huge commercial value under the new economic industry of environmental protection.

In 2020, the PRC Environmental Protection Bureau issued a new policy on strengthening the control of plastic pollution, which made it clear that non-degradable plastic bags will be completely banned by the end of 2025. It has issued several notices to promote the implementation of local plastic ban orders, and various places have issued plastic ban orders one after another, demonstrating the confidence and determination of the PRC government in plastic pollution control from the central to the local level.

In September 2021, the Group tap into environmental friendly bag automatic bag taking machine and relevant database traffic monetisation business to cope with the environmental policy, the new business has cope with various hospitals, supermarkets, shopping malls, hotels, clubhouses, residential areas, scenic spots and pharmacy in the PRC to install such environmental friendly bags taking machines, in order to generate income from database traffic monetisation, advertising fees, trading of relevant machines or maintenance operations.

Starting from June 2022, the database traffic monetisation business have rebounded and has been growing steadily. In July 2022, we have set up own technical team to lay out bag taking machines, and target to deploy 100 environmentally friendly bag machines in second half of 2022 to test the new bag picking process, bag delivery data, consumer feedback and revenue model through our own technical team, as to set out an efficient bag picking process. When this model runs through, our own technical team in Beijing will be responsible for the lay out of bag taking machines in the future. After running out a complete set of data, it is planned to start the national investment promotion in 2023.

In the second half of the year, Daizhangmen will be the stage of refining and deepening the market, target to integrate with various environmental friendly bags brand agents and environmental friendly bags taking machine manufacturers. As the company's database traffic monetisation business is developing in a positive direction as a whole, which we strongly believe providing free products to consumers with generating revenue business model enables us to accumulate greater competitiveness in coming years.

We will continue to make pioneering efforts and pursue new achievements and innovations in such areas as to seek for new opportunities and more extensive strategic cooperation and lay a solid foundation for the stable growth and performance of the Company in the future. In the long-run, the Group remains optimistic on the development of environmental related products and services sector in the PRC.

Lastly, to prepare for future challenges, the Group will stay vigilant and continue to maintain its prudent financial position and lean operation. The Group will also keep a close eye on new business initiatives and other opportunities in order to enhance business growth and deliver long-term value to its shareholders.

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 2022, the net proceeds had been utilised in full in accordance with the intentions previously disclosed by the Group, with breakdown as follows:

	Allocation of net proceeds as disclosed in the prospectus for the Rights Issue <i>HK\$'000</i>	Utilised amount for the period ended 30 June 2022 <i>HK\$'000</i>	Unutilised amount as at 30 June 2022 <i>HK\$'000</i>
Trading and distribution business	8,153	8,153	—
General working capital (<i>Note</i>)	<u>7,445</u>	<u>7,445</u>	<u>—</u>
Total	<u><u>15,598</u></u>	<u><u>15,598</u></u>	<u><u>—</u></u>

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

	<i>HK\$'000</i>
— Audit fees	1,220
— Salaries and allowances	2,648
— Directors' fee	898
— Office expenses	403
— Professional fees	710
— Insurance	185
— Rental expenses	705
— Utilities	34
— Others	<u>642</u>
Total	<u><u>7,445</u></u>

OTHER INFORMATION

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

During the six months ended 30 June 2022, 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 2022, 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 2022 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 2022 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 2022 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, 29 August 2022

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.