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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 2023

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 2023, 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 2023

		Six months ended	
		30/6/2023	30/6/2022
	Notes	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)
Revenue	*5*	**38,703**	28,110
Cost of sales		**(38,513)**	(28,055)
Gross profit		**190**	55
Other income		**1,428**	2,943
Other gains and losses, net		**22**	(84)
Selling and distribution costs		**(130)**	(442)
Administrative expenses		**(8,903)**	(13,586)
Finance costs	*6*	**(48)**	(53)
Loss before income tax		**(7,441)**	(11,167)
Income tax expense	*7*	**–**	–
Loss for the period	*8*	**(7,441)**	(11,167)
Loss for the period attributable to:			
Owners of the Company		**(5,332)**	(7,454)
Non-controlling interests		**(2,109)**	(3,713)
		(7,441)	(11,167)
Loss per share			
Basic and diluted	*9*	**(2.90) cents**	(4.06) cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	Six months ended	
	30/6/2023	30/6/2022
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Loss for the period	**(7,441)**	(11,167)
Other comprehensive expenses that may be subsequently transferred to profit or loss		
Exchange differences arising on translation from functional currency to presentation currency	**(36)**	(487)
Total comprehensive expenses for the period	**(7,477)**	(11,654)
Total comprehensive expenses for the period attributable to:		
Owners of the Company	**(6,442)**	(9,777)
Non-controlling interests	**(1,035)**	(1,877)
	(7,477)	(11,654)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2023

	Notes	30/6/2023 HK$'000 (unaudited)	31/12/2022 HK$'000 (audited)
Non-Current Assets			
Plant and equipment		**44**	49
Mining right		**–**	–
Right-of-use assets		**826**	980
Interests in associates		**2,506**	2,566
Financial assets at fair value through profit or loss		**2,055**	2,109
Club memberships		**870**	875
		6,301	6,579
Current Assets			
Inventories		**–**	924
Trade and other receivables	*10*	**11,170**	1,278
Amounts due from non-controlling shareholders of subsidiaries		**309**	184
Financial assets at fair value through profit or loss		**559**	557
Cash and cash equivalents		**9,969**	6,225
		22,007	9,168
Current Liabilities			
Trade and other payables	*11*	**37,605**	21,051
Amount due to a related party	*13*	**3,257**	313
Amounts due to non-controlling shareholders of subsidiaries		**1,754**	973
Tax payables		**1,696**	1,759
Lease liabilities		**532**	535
		44,844	24,631
Net Current Liabilities		**(22,837)**	(15,463)
Total Assets less Current Liabilities		**(16,536)**	(8,884)

	Note	30/6/2023	31/12/2022
		HK$'000	*HK$'000*
		(unaudited)	(audited)
Capital and Reserves			
Share capital	*12*	**1,836**	1,836
Reserves		**27,410**	33,852
Equity attributable to owners of the Company		**29,246**	35,688
Non-controlling interests		**(46,073)**	(45,038)
		(16,827)	(9,350)
Non-Current Liabilities			
Lease liabilities		**291**	466
Total equity and liabilities		**(16,536)**	(8,884)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2023

	Six months ended	
	30/6/2023	30/6/2022
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Net cash generated from/(used in) operating activities	**1,116**	(10,574)
Net cash generated from investing activities	**34**	56
Net cash generated from/(used in) from financing activities	**2,759**	(4,332)
Net increase/(decrease) in cash and cash equivalents	**3,909**	(14,850)
Cash and cash equivalents at the beginning of the period	**6,225**	31,504
Effect of foreign exchange rate changes	**(165)**	(679)
Cash and cash equivalents at the end of the period	**9,969**	15,975

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 2023 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 2022 annual report, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

Going concern assessment

The directors of the Company have, at the time of approving the condensed consolidated financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the condensed consolidated financial statements.

During the period ended 30 June 2023, the Group incurred a loss attributable to the owner of the Company of approximately HK$5,332,000 (2022: HK$7,454,000). In addition, as at 30 June 2023, its current liabilities exceeded its current assets by approximately HK$22,837,000 (2021: its current assets exceeded its current liabilities by approximately HK$15,463,000).

The conditions described above indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and hence, its ability to realise its assets and discharge its liabilities in the normal course of business.

In preparing the condensed consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group. The directors of the Company have reviewed the Group's cash flow projections prepared by the management of the Company. The cash flow projections cover a period of at least the next twelve months from 30 June 2023. In the opinion of the directors of the Company, the Group can meet its financial obligations as and when they fall due within the next twelve months from 30 June 2023, after taking into consideration of the measures and plans made by the Group as detailed below:

- The Company obtained a letter of undertaking (the "Letter of Undertaking") dated 27 March 2023 from Mr. Lau, the Chief Executive Officer, Executive Director and the controlling shareholder of the Company that he agrees to provide adequate funds to enable the Group to meet its liabilities and to settle financial obligations to third parties as and when they fall due so that the Group can continue as a going concern and carry on its business without a significant curtailment of operations for a period of at least the next twelve months;

- On 27 March 2023 and 30 March 2023, the Company entered into subscription agreements with independent third parties (the "Subscribers"), pursuant to which the Subscribers have conditionally agreed to subscribe, and the Company has conditionally agreed to allot and issue, a total 28,000,000 shares of HK$0.26 each for a cash consideration of approximately HK$7.3 million ("the Subscriptions"). On 4 July 2023, the Subscriptions have been completed;

- The Group will also continue to seek for other alternative financing and bank borrowings to finance the settlement of its existing financial obligations and future operating and capital expenditures;

- The directors of the Company will consider to improve the financial position of the Group and to enlarge the capital base of the Company by further conducting fund raising exercises such as share placement, right issues or others as and when necessary; and

- The directors of the Company will continue to implement measures aiming at improving the working capital and cash flows of the Group including closely monitoring general administrative expenses and operating costs.

In light of the above measures and plans implemented to date, the directors of the Company are of the view that the Group has sufficient cash resources to satisfy its working capital and other financial obligations for a period of at least the next twelve months from 30 June 2023 after having taken into account of the Group's projected cash flows, current financial resources and capital expenditure requirements with respect to the development of its business. Accordingly, the directors of the Company are of the view that it is appropriate to prepare these condensed consolidated financial statements on a going concern basis.

Notwithstanding the above, significant uncertainties exist as to whether the management of the Company will be able to achieve its measures and plans as described above. Whether the Group will be able to continue as a going concern would depend upon the Group's ability to generate adequate financing and operating cash flows in the near future and obtain the continuous financial support from its controlling shareholder.

Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to restate the values of assets to their estimated recoverable amounts, to provide further liabilities that might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effects of these potential adjustments have not been reflected in the condensed consolidated financial statements.

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 2022, except for the adoption of new/revised standards effective as of 1 January 2023.

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

- HKFRS 17, Insurance contracts
- Amendments to HKAS 8, Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates
- Amendments to HKAS 12, Income taxes: Deferred tax related to assets and liabilities arising from a single transaction
- Amendments to HKAS 12, Income taxes: International tax reform — Pillar Two model rules

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 2022.

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 2023 and 2022, 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 2023 (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	**38,703**	**–**	**38,703**
Reportable segment loss	**(2,982)**	**(516)**	**(3,498)**
Depreciation of right-of-use assets	**333**	**–**	**333**
Revenue			
Reportable segment revenue and consolidated revenue			**38,703**
Loss before income tax			
Reportable segment loss			**(3,498)**
Fair value gain on financial assets at fair value through profit or loss			**17**
Interest income			**34**
Miscellaneous income			**212**
Motor vehicle expenses			**(8)**
Staff costs (including directors' remunerations)			**(2,548)**
Corporate expenses			**(1,607)**
Finance costs			**(48)**
Gain on disposal of plant and equipment			**5**
Consolidated loss before income tax			**(7,441)**

As at 30 June 2023 (unaudited)

	Mobile phone business *HK$'000*	Mining business *HK$'000*	Total *HK$'000*
Reportable segment assets	**23,177**	**972**	**24,149**
Additions to non-current assets	**372**	**–**	**372**
Reportable segment liabilities	**(17,562)**	**(14,845)**	**(32,407)**

Assets	
Reportable segment assets	**24,149**
Unallocated corporate assets	
— Financial assets at fair value through profit or loss	**2,614**
— Club memberships	**870**
— Cash and cash equivalents	**180**
— Others	**495**
Consolidated total assets	**28,308**
Liabilities	
Reportable segment liabilities	**32,407**
Unallocated corporate liabilities	
— Amount due to a related party, Mr. Lau	**3,257**
— Others	**9,471**
Consolidated total liabilities	**45,135**

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	28,110	–	28,110
Reportable segment loss	(6,824)	(552)	(7,376)
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	(53)
Consolidated loss before income tax	(11,167)

As at 30 June 2022 (unaudited)

	Mobile phone business *HK$'000*	Mining business *HK$'000*	Total *HK$'000*
Reportable segment assets	19,690	1,723	21,413
Additions to non-current assets	3,003	–	3,003
Reportable segment liabilities	(12,081)	(15,454)	(27,535)

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	909
Consolidated total assets	32,890
Liabilities	
Reportable segment liabilities	27,535
Unallocated corporate liabilities	
— Amount due to a related party, Mr. Lau	3,569
— Others	2,301
Consolidated total liabilities	33,405

(b) Geographical information

During the six months ended 30 June 2023 and 2022, 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	
	30/6/2023	30/6/2022
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Geographical market		
PRC	**4,008**	22,849
Hong Kong	**34,695**	5,261
	38,703	28,110
Major product		
Mobile phone and related accessories	**38,703**	28,110
Timing of revenue recognition		
At a point in time	**38,703**	28,110

6. FINANCE COSTS

	Six months ended	
	30/6/2023	30/6/2022
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Interest on lease liabilities	**48**	53

7. INCOME TAX EXPENSE

For the six months ended 30 June 2023 and 2022, 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 EIT has been made as the Group did not have any estimated assessable profits for both reporting periods.

8. LOSS FOR THE PERIOD

	Six months ended	
	30/6/2023	30/6/2022
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Loss before income tax is arriving at after charging/(crediting):		
Staff costs		
— directors' emoluments	**1,687**	1,702
— salaries and allowances for other staff	**2,915**	3,542
— retirement benefit scheme contribution	**84**	122
	4,686	5,366
Auditor's remuneration	**546**	516
Depreciation of plant and equipment	**5**	3
Depreciation of right-of-use assets	**514**	878
and after crediting:		
Interest income	**34**	56

9. LOSS PER SHARE

The calculation of loss per share for the six months ended 30 June 2023 is based on the loss for the period attributable to owners of the Company of HK$5,332,000 (30 June 2022: loss of HK$7,454,000) and the weighted average number of 183,555,888 (30 June 2022: 183,555,888) shares in issue during the period.

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 2023 and 2022.

10. TRADE AND OTHER RECEIVABLES

	30/6/2023	31/12/2022
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Trade receivables	**13,026**	3,272
Less: Allowance for credit loss	**(3,186)**	(3,272)
	9,840	–
Value-added-tax recoverable	**292**	269
Prepayments to suppliers	**23,396**	24,024
Other receivables and deposits	**8,589**	8,697
	42,117	32,990
Less: Allowance for credit loss	**(30,947)**	(31,712)
	11,170	1,278
Total trade and other receivables (net of allowances for credit loss)	**11,170**	1,278

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:

	30/6/2023	31/12/2022
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0 to 30 days	**9,840**	–
31 to 90 days	**–**	–
91 to 365 days	**–**	–
	9,840	–

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:

	30/6/2023	31/12/2022
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Trade payables:		
0 to 90 days	**9,785**	924
Over 90 days	**30**	30
	9,815	954
Value-added-tax payables	**11**	22
Prepayments from customers	**1,329**	1,204
Other payables and accruals	**14,992**	7,100
Provision for close down and restoration costs	**11,458**	11,771
	37,605	21,051

12. SHARE CAPITAL

	Number of ordinary shares	**Share capital**
		HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 31 December 2022 and 30 June 2023	20,000,000,000	200,000
Issued and fully paid:		
At 31 December 2022 and 30 June 2023	183,555,888	1,836

13. AMOUNT DUE TO A RELATED PARTY

	30/6/2023	31/12/2022
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Mr. Lau Siu Ying	**3,257**	313

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 2023 and 2022.

REVIEW AND OUTLOOK

Revenue

For the six months ended 30 June 2023, the Group recorded total revenue of HK$38.7 million, which was approximately HK$10.6 million or 37.7% higher than the revenue of HK$28.1 million reported for the six months ended 30 June 2022. The increase in Group's revenue was mainly attributable to the increase in revenue from mobile phone and related accessories trading business in Hong Kong.

The Group's revenue was derived from mobile phone and related accessories trading business in PRC and Hong Kong in both reporting periods. During the six months ended 30 June 2023, revenue from mobile phone and related accessories trading business was HK$38.7 million, contribution from Shanghai and Hong Kong was HK$4.0 million and HK$34.7 million respectively, representing 10.3% and 89.7% of the total revenue of the Group.

During the six months ended 30 June 2023, although the domestic economy is expected to gradually recover, China's consumers pulling back on spending have taken a toll on its mobile phone retail market which is stalled and declining, the revenue of the Group were still remained at low level in current reporting periods.

For 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.

Compared with previous corresponding period, the Group's revenue contribution from Shanghai decreased from 81.1% to 10.3%, while Hong Kong increased from 18.9% to 89.7%. The main reason is the Group have adopted a supply chain diversification strategies to maintain and strengthen our mobile phone and related electronic products business in the market and Group's performance since second half of 2022.

Gross profit and gross profit margin

The Group's gross profit and gross profit margin were HK$0.2 million or 0.5% and HK$55 thousand or 0.2% for the six months ended 30 June 2023 and 2022, respectively. The low gross profit and gross profit margin were due to the scaled back in Group's performance on mobile phone trading business for both reporting periods. The low gross profit margin was due to the increased bargaining power from telecommunications chain stores and mobile carriers which purchasing mobile phone and underperformance of promotion of the mobile application to consumers business.

Other income

Other income was approximately HK$1.4 million for the six months ended 30 June 2023, when compared to previous corresponding period of HK$2.9 million.

For the six months ended 30 June 2023, the Group's other income decreased by HK$1.5 million was mainly due to decreased of HK$1.3 million (2022: HK$2.5 million) by Beijing Daizhangmen database traffic monetisation income from the mobile application business.

Other gains and losses

We had a net gain of HK$22 thousand for the six months ended 30 June 2023 and a net loss of HK$84 thousand for the previous corresponding period. For the six months ended 30 June 2023, the net gain mainly comprised gain on disposal of plant and equipment of HK$5 thousand and fair value gain on financial assets at fair value through profit or loss of HK$17 thousand. For the six months ended 30 June 2022, the net loss mainly comprised fair value loss on financial assets at fair value through profit or loss of HK$93 thousand and exchange gain of HK$12 thousand.

Selling and distribution costs

Selling and distribution costs were approximately HK$0.1 million for the six months ended 30 June 2023, as compared to HK$0.4 million for the six months ended 30 June 2022. The Group's selling and distribution costs were primarily consisted of logistics and transportation and travelling expenses.

Administrative expenses

The Group's administrative expenses decreased by HK$4.7 million or 34.5% from approximately HK$13.6 million for the six months ended 30 June 2022 to approximately HK$8.9 million for the six months ended 30 June 2023. Administrative expenses mainly comprised salaries and allowances, rental expenses, legal and professional fees and travelling expenses.

The decrease of administrative expenses by HK$4.7 million was principally attributable to the decreased in salaries and allowances, advertising and promotion expenses, technical services fees and packing expenses incurred by Beijing Daizhangmen database traffic monetisation of mobile application business with respect to certain cost reduction policies implemented effectively.

Finance costs

During the six months ended 30 June 2023, finance costs amounted to HK$48 thousand, while finance costs of HK$53 thousand was recorded in previous corresponding period. The financial costs remain steady between the periods, solely represents the interest on lease liabilities.

Income tax expense

No income tax expense was recorded for the six months ended 30 June 2023 and 2022.

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$5.3 million for the six months ended 30 June 2023, as compared to HK$7.5 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$2.90 cents in current period as compared to the basic loss per share of HK$4.06 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 2023 and 2022.

Financial assets at fair value through profit or loss

As at 30 June 2023 and 31 December 2022, 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 various business.

Inventories

As at 30 June 2023, no inventories were recognised, while HK$0.9 million of inventories were recognised as at 31 December 2022. The Group will continue to implement appropriate practices and policies in inventory control and supply chain management in the future.

Trade and other receivables

Trade and other receivables of the Group increased by approximately HK$9.9 million from approximately HK$1.3 million as at 31 December 2022 to approximately HK$11.2 million as at 30 June 2023.

The increase in trade and other receivables was mainly due to the increase in trade receivables of HK$9.8 million (31 December 2022: nil), represented sales of mobile phone and related accessories of HK$9.8 million before the period ended of 30 June 2023.

Cash and cash equivalents

The total cash and cash equivalents amounted to HK$10.0 million as at 30 June 2023 as compared to HK$6.2 million as at 31 December 2022, without any deposit pledged to banks. The Group is financed by a combination of its equity capital, cash flow generated from its operation. 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

Trade and other payables of the Group increased by approximately HK$16.5 million or 78.6% from approximately HK$21.1 million as at 31 December 2022 to approximately HK$37.6 million as at 30 June 2023.

The increase in trade and other payables was mainly due to the increase in trade payables of HK$8.8 million (30 June 2023: HK$9.8 million; 31 December 2022: HK$1.0 million). Trade and other payables also comprised value-added-tax payables (30 June 2023: HK$11 thousand; 31 December 2022: HK$22 thousand), prepayment from customers (30 June 2023: HK$1.3 million; 31 December 2022: HK$1.2 million), other payables and accruals (30 June 2023: HK$15.0 million; 31 December 2022: HK$7.1 million) and provision for close down and restoration costs of Huangshi Sifa Mining (30 June 2023: HK$11.5 million; 31 December 2022: HK$11.8 million).

Other payables and accruals mainly consisted of accrual for directors' fee, staff costs, audit fees, legal and professional fees, rental payable and proceeds of shares subscriptions. The increase of other payables and accruals of HK$7.9 million was mainly due to the proceeds of subscriptions of shares under general mandate of approximately HK$7.3 million as at 30 June 2023 which the completion took place subsequently on 4 July 2023. Further details were set out in the Company's announcements dated 4 July 2023 and 5 July 2023.

Liquidity and gearing ratio

The net asset value of the Group attributable to owners of the Company as at 30 June 2023 amounted to HK$29.2 million or HK$0.16 per share when compared to HK$35.7 million or HK$0.19 per share as at 31 December 2022. As at 30 June 2023, the Group had net current liabilities of approximately HK$22.8 million when compared to net current liabilities of HK$15.5 million as at 31 December 2022. As at 30 June 2023, the Group had a current ratio of 0.49 times (31 December 2022: 0.37 times). The gearing ratio of the Group, defined as the ratio of the total long term liabilities to the shareholder's equity, was 0.01 and 0.01 as at 30 June 2023 and 31 December 2022, respectively.

Capital commitments

As at 30 June 2023, 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 2022: nil).

Contingent liabilities

As at 30 June 2023, the Group did not have any contingent liabilities or guarantees (31 December 2022: nil).

Material acquisitions and disposals of subsidiaries or associates

During the six months ended 30 June 2023, the Group did not have material acquisitions and disposals of subsidiaries or associates.

Employees and remuneration policies

As at 30 June 2023, the Group has in total 36 employees as compared to 38 employees as at 31 December 2022. 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.

Subsequent events

On 27 March 2023 and 30 March 2023, the Company entered into subscription agreements with independent third parties, pursuant to which the Subscribers has conditionally agreed to subscribe, and the Company has conditionally agreed to allot and issue, a total 28,000,000 shares of HK$0.26 each for a cash consideration of approximately HK$7.3 million ("the Subscriptions"). Further details were set out in the Company's announcements dated 27 March 2023 and 30 March 2023.

On 4 July 2023, the Subscriptions have been completed. Further details were set out in the Company's announcements dated 4 July 2023 and 5 July 2023. Save as disclosed above, there is no other significant events subsequent to the reporting period.

DIVIDEND

The Board do not recommend the payment of any interim dividend for the six months ended 30 June 2023 (2022: 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 1.7 billion subscribers to mobile phone services in the PRC. 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 comes 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 887,000 base stations in 2022, 561 million mobile phone users who have adopted 5G as of the end of 2022, approximately 33.3% of mobile phone users are adopting 5G services. Nearly 2.31 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 expected 600,000 5G base stations will be installed 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 coming years, 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.

Looking back at 2023, China's mobile phone market declined and scaled back due to the international trade conflicts escalated, the uncertainties of economic development and China's consumers pulling back on spending, the decline is expected to continue in the coming years but partially offset with the 5G and 6G development.

We are pleased and confident to rebuild our network, business strategy and development as well as improve the Group's financial performance.

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 presented challenges the development of the Group's operations and performance.

Customers focus is expected to gradually shift from the functionality of mobile phone to the shopping experience. Customers will normally require services such as function presentations, digital phone books synchronization and pre-installing software, etc, in purchasing a mobile phone. In the 5G era, the convergence of mobile telecommunications and the Internet also led to rapid development of value-added business which requires the retail channels to advance from a pure sales platform to an integrated service platform. In this regard, the large mobile telecommunication chain stores have advantages. Furthermore, we intend to continue growth by diversify the trading markets, products and distribution channels.

Mining Business

The Group has once commenced mining site exploitation system in our Strontium mining site since 2010. After the expiration of a 5-year mining operating permit on 25 September 2012, Sifa Mining obtained a renewed mining operating permit for 2 years (the "2-year Permit 2012-2014") from the Ministry of Land and Resources of the PRC (中華人民共和國國土資源部) ("MLR"), under which Sifa Mining was allowed to carry out exploration activities only, but not exploitation activities. The 2-year Permit 2012-2014 was expired on 25 September 2014.

On 27 April 2015, a mining operating permit was granted by MLR for a term of 2 years from 25 September 2014 to 25 September 2016 under which a restriction was added that no exploitation activities were allowed but only exploration activities. Such restriction imposed on the renewed mining permit was basically the same as the previous mining permit which was approved by MLR in 2012 whilst the application for mining exploitation permit is a continuing process.

In the course of applying for further extension after expiry on 25 September 2016, the Department of Land and Resources of Hubei Province of the PRC (the "DLR") issued an announcement (the "DLR Announcement") published on 29 December 2017 in respect of the deadline of application for renewal of the expired mining operating permit.

In the DLR Announcement, the DLR informed the owners of the expired mining operating permits to furnish the application procedures for the renewal before 28 February 2018. If the owners fail to do so, they are responsible to deregister the mining operating permits before 31 March 2018 by themselves or the DLR will de-register the permits instead. The Group was unable to furnish the application before the deadline and therefore, instructed the Group's lawyers to clarify with the DLR the Group's situation as to whether the Group would be allowed to submit a new application for the mining operating permit in future.

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

Despite the fact that the above mining right will no longer have any bearing on the financials of the Group for the year ended 31 December 2018, the Directors strived to pursue the ultimate stance of the DLR in respect of the above mining right in the interests of the Shareholders.

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

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

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, 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.

Prospects and Outlook

The China economy is still showing a sign of slowdown resulting from the US-China trade war that has simmered in current period. 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. The Group expect the consumption and retail segment will continued to be affected from the blow of the US-China trade war facing an uncertain future in the coming years. As the COVID-19 pandemic situation in China improved and restrictions were loosening, we expect the Chinese economy will make a significant turnaround in 2023.

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 1.7 billion handset subscribers in the PRC 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.

With 5G Technology becoming an everyday reality soon, it will also impact customer experience. With a ten times faster than 4G, it will be able to fetch real-time intelligence or data, which 5G might revamp certain customer experience such as smart homes, smart cars and smart retail. As a result, 5G augments digitalisation enabled the launch of many new software, applications and related products.

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.

We expect the global business environment starting from 2023 will be more stable, especially for China and Hong Kong region which have ceased cross-border restrictions and social-distancing measures. Furthermore, the Group have expanded the trading market in Hong Kong since 2022. Our teams have been making excellent progress in explore various electronic products for trading. In second half of 2023, we intend to continue growth by diversifying the trading markets, products and distribution channels.

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 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 second half of 2023.

In 2023, 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.

OTHER INFORMATION

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

During the six months ended 30 June 2023, 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 2023, with deviations as stated below:

Code Provision C.2.1

Code Provision C.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 B.2.2 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 B.2.2

Code Provision B.2.2 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 B.2.2 of the Code but are subject to retirement by rotation in accordance with the Company's Bye-laws. In accordance with the relevant provisions in the Bye-laws of the Company, if the appointment of Directors is made by the Board, the Directors so appointed must stand for election by the shareholders at the first annual general meeting following their appointments and all Directors, except the Chairman, must stand for re-election by the shareholders by rotation.

AUDIT COMMITTEE

The Company has 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 2023 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 2023 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.chinafortune.com. The interim report of the Company for the six months ended 30 June 2023 containing all the information required by Appendix 16 of the Listing Rules is expected to be published in September 2023 on the same websites and will be despatched to the shareholders of the Company by no later than 30 September 2023.

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

Hong Kong, 28 August 2023

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