



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

(Incorporated in Bermuda with limited liability,
carrying on business in Hong Kong as CFH Limited)

Stock Code : 0110

Interim Report

2018

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CORPORATE INFORMATION

Board of Directors

Chairman and Executive Director

Mr. Lau Siu Ying

Executive Directors

Mr. Luo Xi Zhi

(Resigned on 17 April 2018)

Mr. Wang Yu

Non-executive Director

Mr. Bao Kang Rong

(Appointed on 4 June 2018)

Independent Non-executive Directors

Mr. Chang Wing Seng, Victor

(Retired on 1 June 2018)

Dr. Law Chun Kwan

Mr. Lam Man Kit

Dr. Lo Wai Shun

(Appointed on 4 June 2018)

Company Secretary

Mr. Fok Wai Ming, Eddie

(Resigned on 3 April 2018)

Mr. So Chi Kai

(Appointed on 3 April 2018)

Audit Committee

Mr. Lam Man Kit (*Committee Chairman*)

(Appointed as Chairman on 4 June 2018)

Mr. Chang Wing Seng, Victor

(Retired on 1 June 2018)

Dr. Law Chun Kwan

Dr. Lo Wai Shun

(Appointed on 4 June 2018)

Remuneration Committee

Mr. Lam Man Kit (*Committee Chairman*)

(Appointed as Chairman on 4 June 2018)

Mr. Chang Wing Seng, Victor

(Retired on 1 June 2018)

Mr. Lau Siu Ying

Dr. Law Chun Kwan

Dr. Lo Wai Shun

(Appointed on 4 June 2018)

Nomination Committee

Mr. Lau Siu Ying (*Committee Chairman*)

Mr. Wang Yu

Mr. Chang Wing Seng, Victor

(Retired on 1 June 2018)

Dr. Law Chun Kwan

Mr. Lam Man Kit

Dr. Lo Wai Shun

(Appointed on 4 June 2018)

Registered Office

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Hamilton HM11, Bermuda

Hong Kong Head Office

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Hong Kong

China Head Office

Room 9008, Yong Xin Building
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Huangpu District
Shanghai, PRC

Shanghai Office

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2 Tai Zhong Nan Lu
Waigaoqiao Free Trade Zone
Shanghai, PRC

Principal Share Registrar and Transfer Office

Codan Services Limited
Clarendon House, 2 Church Street
Hamilton HM11, Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Tricor Abacus Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Auditor

BDO Limited

Legal Advisors

As to Hong Kong law:
S.T. Cheng & Co., Solicitors

As to Bermuda law:
Conyers Dill & Pearman

Principal Bankers

Bank of China
China Merchants Bank
ICBC (Asia)

Corporate Websites

www.fortunetele.com
www.chinafortune.com

Stock Code

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REVIEW AND OUTLOOK

Financial Review

The Group's turnover in mobile phone business increased in the period. The Group recorded a consolidated revenue during the period of HK\$39.5 million when compared to the previous corresponding period of HK\$0.5 million. The gross profit amounted to HK\$0.5 million, an increase of 25.0% when compared to the previous corresponding period of HK\$0.4 million. The gross margin percentage during the period was 1.4% which was lower than the previous corresponding period of 79.7%. As a result, the Group reported a loss of HK\$19.3 million during the period when compared to a loss of HK\$7.0 million in the previous corresponding period.

The other gains and losses during the period consisted of an impairment loss recognised in respect of prepayments paid to a supplier amounted to HK\$10.7 million, fair value loss on financial assets at fair value through profit or loss of HK\$0.4 million and value-added-tax paid of HK\$1.7 million.

No selling and distribution costs were recorded for the six months ended 30 June 2018 when compared to the previous corresponding period of HK\$0.4 million. The administrative expenses amounted to HK\$6.7 million when compared to the previous corresponding period of HK\$7.0 million.

The finance costs during the period was HK\$0.6 million which was approximately the same as in the previous corresponding period.

The net asset value of the Group as at 30 June 2018 amounted to HK\$15.3 million or HK\$0.02 per share when compared to HK\$31.4 million or HK\$0.03 per share as at 31 December 2017. As at 30 June 2018, the Group's other borrowings amounted to HK\$14.6 million, which was maintained at the similar level as at 31 December 2017.

The gearing ratio of the Group, defined as the ratio of the total long-term liabilities to the shareholder's equity, was 1.77 as at 30 June 2018 when no long-term liabilities was noted as at 31 December 2017.

The total cash and cash equivalents amounted to HK\$14.3 million (most of which were placed as deposits in the banks in the PRC) as at 30 June 2018 without any deposit pledged to banks. The Group is financed by a combination of its equity capital, cash flow generated from its operation and other borrowings. During the period, there was no material change in the funding and treasury policy of the Group. The Group considers the only potential currency exposure is in Renminbi as the majority of its revenue is derived in the PRC. It is the treasury policy of the Group to manage its foreign currency exposure whenever its financial impact is material to the Group.

The inventories of the Group as at 30 June 2018 amounted to HK\$1.2 million, as compared to HK\$2.1 million as at 31 December 2017. The inventory turnover period was 10 days for the six months ended 30 June 2018, as compared with that for the year ended 31 December 2017 of 69 days. The inventory was mainly the extracted ore in the mine. The Group will continue to apply strict policy in inventory control in the future.

The amount of trade and other receivables as at 30 June 2018 was HK\$21.5 million, as compared to HK\$12.6 million as at 31 December 2017. In order to minimise the credit risk for the trade receivables, the Group has implemented prudent control on the determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

As at 30 June 2018, the Group had in total 23 employees as compared to 15 employees as at 31 December 2017. Employees were remunerated according to the nature of their job duties and market trend. The Group provided staff welfare and fund contribution to its employees in accordance with the prevailing regulations in the PRC and Hong Kong. There was no material change in the remuneration policy, bonus scheme and share option scheme during the 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.

Market and Business Review, and Outlook

Trading and Distribution of Mobile Phone Business

The Group was involved in the business of trading, wholesale and retail of mobile phones and telecom equipment in China. Although there was growth in the mobile phone market, the competition in the mobile phone retail market was very keen and the Group's performance in this area had been affected. Customers focus is expected to gradually shift from the functionality of mobile phone to the shopping experience. Customers will normally require services such as function presentations, digital phone books synchronization and preinstalling software, etc, in purchasing a mobile phone. In the 3G & 4G era, the convergence of mobile telecommunications and the Internet also led to rapid development of value-added business which requires the retail channels to advance from a pure sales platform to an integrated service platform. In this regard, the large mobile telecommunication chain stores have advantages.

Mining Business

We commenced developing a new 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.

The Board has come to the attention that the Department of Land and Resources of Hubei Province of the People’s Republic of China (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 instructed 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 de-register the mining operating permits before 31 March 2018 by themselves or the DLR will de-register the permits instead. The Group was not able to furnish the application before the deadline and therefore, instructed the lawyer to clarify with the DLR the Group’s situation on whether the Group is allowed to submit a new application for the mining operating permit in future. Up to the date of this report, the Group has not yet received the reply from the DLR.

The Directors are of the opinion that there is material uncertainty on whether the Group will be able to make a new application for the mining operating permit because of the DLR Announcement. Also, high capital investment is to be involved for the new application and the reversal of the industry downturn is still unpredictable. The Directors have factored these into their assessment of the recoverable amount of the Group's mining right and related plant and equipment, and the carrying amount of the related deferred tax liabilities as at 31 December 2017, and provided a full impairment of the mining right of HK\$174,589,000 and related plant and equipment of HK\$8,965,000 and derecognised all the related deferred tax liabilities of HK\$41,116,000 in the profit or loss during the year ended 31 December 2017.

While it cannot be predicted precisely when the downturn will end, the Board proceeded in a prudent way to formulate the construction plan. The industry cycle and market situation are also being closely monitored. Nevertheless, the Directors are also exploring all commercially viable opportunities to maximise the return from this investment, including finding potential buyers.

Prospects and Outlook

The continued economic growth in the PRC is fuelled by a high internal consumption. As the world's biggest handset market, there were more than 1.4 billion handset subscribers in the PRC with an increase of around 95.6 million subscribers in 2017. There were around 1 billion 4G users among the total subscribers, and forecasted to increase much further in the near future. On the other hand, there were more than 1.1 billion mobile Internet users which implies that there are huge business opportunities in both mobile application and mobile commerce. Since the Group has been in the related mobile phone industry for decades, big data, mobile phone operating system and mobile internet would be surely the key business areas that the Group is interested in. Blockchain technology is another area that the Group is pursuing. The Group is actively looking for further opportunities which will further enhance the shareholders' value.

OTHER INFORMATION

Directors' and Chief Executive's interests in shares and underlying shares

At 30 June 2018, the interests and short positions of the directors, the chief executive and their associates in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")), which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

(a) Ordinary shares of HK\$0.10 each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Lau Siu Ying	Held by a discretionary trust (Note 1)	188,300,013	20.52%
	Beneficial owner	267,996,285	29.20%
		<u>456,296,298</u>	<u>49.72%</u>

(b) Share options

Name of director	Capacity	Number of options held	Number of underlying shares
Mr. Lau Siu Ying	Beneficial owner	8,000,000	8,000,000
Mr. Luo Xi Zhi (Note 2)	Beneficial owner	1,000,000	1,000,000
Mr. Wang Yu	Beneficial owner	1,000,000	1,000,000
Mr. Chang Wing Seng, Victor (Note 3)	Beneficial owner	1,500,000	1,500,000
		11,500,000	11,500,000

Notes:

1. These shares are held by Future 2000 Limited, a company incorporated in the British Virgin Islands which in turn is held by a discretionary trust, the beneficiaries of which include Mr. Lau Siu Ying, his spouse and his children.
2. Mr. Luo Xi Zhi resigned as executive director of the Company on 17 April 2018.
3. Mr. Chang Wing Seng, Victor retired as independent non-executive director of the Company on 1 June 2018.

The interest disclosed above represents long positions in the shares and underlying shares of the Company or its associated corporations.

Save as disclosed above, none of the directors, chief executives nor their associates had any interests or short positions in any shares or underlying shares of the Company or any of its associated corporations as defined in the SFO at 30 June 2018.

Share options

As the old share option scheme had expired on 26 January 2014, the Company adopted a new share option scheme (the "New Share Option Scheme") on 28 May 2014.

As at 30 June 2018, the Company had 11,900,000 outstanding options granted under the old share option scheme, which shall continue to be valid and exercisable during the prescribed exercisable period in accordance with the old share option scheme.

The purpose of the New Share Option Scheme is to enable the Company to grant options to selected eligible participants as incentives or rewards for their contribution or potential contribution to the Group or any invested entity.

The rules of the New Share Option Scheme provide that the Company may specify the eligible participants to whom options shall be granted, the number of shares subject to each option and the date on which the options shall be granted. The basis for determining the subscription price is also specified precisely in the rules of the New Share Option Scheme. Subject to the terms of the New Share Option Scheme, the Board may in its absolute discretion when making an offer impose any conditions, restrictions or limitation in relation thereto in addition to those set forth in the New Share Option Scheme as it may think fit including continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by the Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period when the right to exercise the option partly or fully shall vest provided always that no offer made to such grantee would or might constitute an invitation to the public to subscribe for the shares under any applicable laws, legislations and regulations.

The New Share Option Scheme is principally the same as the old share option scheme.

The following table disclosed the movements in the share options of the Company during the period:

	Date of grant	Exercise price per share HK\$	Outstanding at beginning of the period	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at end of the period
Category I – Directors							
Mr. Lau Siu Ying	12.7.2013	0.255	8,000,000	–	–	–	8,000,000
Mr. Luo Xi Zhi (Note 1)	12.7.2013	0.255	1,000,000	–	–	–	1,000,000
Mr. Wang Yu	12.7.2013	0.255	1,000,000	–	–	–	1,000,000
Mr. Chang Wing Seng, Victor (Note 2)	12.7.2013	0.255	1,500,000	–	–	–	1,500,000
Total for directors			11,500,000	–	–	–	11,500,000
Category II – Employees							
Employees	12.7.2013	0.255	100,000	–	–	–	100,000
Category III – Consultants							
Consultants	12.7.2013	0.255	300,000	–	–	–	300,000
Total for all categories			11,900,000	–	–	–	11,900,000

Notes:

1. Mr. Luo Xi Zhi resigned as executive director of the Company on 17 April 2018.
2. Mr. Chang Wing Seng, Victor retired as independent non-executive director of the Company on 1 June 2018.

Directors' rights to acquire shares or debentures

Other than the share option scheme disclosed above, at no time during the period was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. None of the directors, their spouses or children under the age of 18 had any rights to subscribe for the securities of the Company or had exercised any such rights during the period.

Substantial shareholders

The register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, as at 30 June 2018, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

(a) Ordinary shares of HK\$0.10 each of the Company

Name of substantial shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Lau Siu Ying	Held by a discretionary trust (Note 1)	188,300,013	20.52%
	Beneficial owner	267,996,285	29.20%
		456,296,298	49.72%
Mr. Lee Wai, Timothy	Held by controlled entity (Note 2)	188,300,013	20.52%

(b) Share options

Name of substantial shareholder	Capacity	Number of options held	Number of underlying shares
Mr. Lau Siu Ying	Beneficial owner	8,000,000	8,000,000
Mr. Lee Wai, Timothy	Beneficial owner	300,000	300,000

Notes:

1. These shares are held by Future 2000 Limited, a company incorporated in the British Virgin Islands which in turn is held by a discretionary trust. The beneficiaries of the discretionary trust include Mr. Lau Siu Ying, his spouse and his children.
2. Under the SFO, Mr. Lee Wai, Timothy is deemed to have interests in the shares of the Company as he is entitled to exercise more than one-third of the voting power at general meetings of Future 2000 Limited.

Purchase, sale or redemption of listed securities of the Company

During the period, 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

For the six months ended 30 June 2018, the Company has complied with the Corporate Governance Code ("the Code") as set out in Appendix 14 of the Listing Rules, except that:

1. Provision A.2.1 of the Code stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual but Mr. Lau Siu Ying currently assumes both roles of the Chairman and the Chief Executive Officer of the Company. Provision A.4 of the Code states that all directors should be subject to re-election at regular intervals. However, Mr. Lau Siu Ying, being the Chairman of the Board, does not need to retire by rotation. Mr. Lau Siu Ying has been in charge of the overall management of the Company since its incorporation. As a result, although he does not need to retire by rotation and assumes both roles of the Chairman and the Chief Executive Officer of the Company, the Board considers that such arrangement at the current stage of development of the Group can facilitate the execution of its business strategies and 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.
2. All Non-executive Directors of the Company are not appointed for a specific term as stipulated under the provision A.4.1 of the Code but are subject to retirement by rotation in accordance with the Company's Bye-laws. In accordance with the relevant provisions in the Bye-laws of the Company, if the appointment of Directors is made by the Board, the Directors so appointed must stand for election by the shareholders at the first annual general meeting following their appointments and all Directors, except the Chairman, must stand for re-election by the shareholders by rotation.

AUDIT COMMITTEE

The Company has formulated written terms of reference for the Audit Committee in accordance with the requirements of the Listing Rules. The Audit Committee is delegated by the Board to assess matters related to the financial statements and to provide recommendations and advices regarding the Company's financial reporting matters, including the review of the interim results for the six months ended 30 June 2018, the internal control and risk management system. The Audit Committee has reviewed and approved this report.

As at the date of this report, the Audit Committee comprises three Independent Non-executive Directors, Mr. Lam Man Kit (Chairman of the Audit Committee), Dr. Law Chun Kwan and Dr. Lo Wai Shun.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules.

Having made specific enquiry of the Directors of the Company, all the Directors confirmed that they had complied with the required standards as set out in the Model Code throughout the review period.

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 2018, 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.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2018

	Notes	Six months ended 30/6/2018 HK\$'000 (unaudited)	30/6/2017 HK\$'000 (unaudited)
Revenue	4	39,479	542
Cost of sales		(38,934)	(110)
Gross profit		545	432
Other income		429	516
Other gains and losses	5	(12,792)	(34)
Selling and distribution costs		–	(361)
Administrative expenses		(6,731)	(6,993)
Finance costs	6	(646)	(593)
Share of results of associates		(6)	(6)
Loss before income tax		(19,201)	(7,039)
Income tax expense	7	(65)	–
Loss for the period	8	(19,266)	(7,039)
Loss for the period attributable to:			
Owners of the Company		(17,584)	(5,361)
Non-controlling interests		(1,682)	(1,678)
		(19,266)	(7,039)
Loss per share			
Basic	9	(1.92) cents	(0.59) cents
Diluted	9	N/A	N/A

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE
INCOME***For the six months ended 30 June 2018*

	Six months ended	
	30/6/2018	30/6/2017
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Loss for the period	(19,266)	(7,039)
Other comprehensive income that may be subsequently transferred to profit or loss		
Exchange differences arising on translation from functional currency to presentation currency	705	6,194
Total comprehensive income for the period	(18,561)	(845)
Total comprehensive income for the period attributable to:		
Owners of the Company	(17,572)	(498)
Non-controlling interests	(989)	(347)
	(18,561)	(845)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	Notes	30/6/2018 HK\$'000 (unaudited)	31/12/2017 HK\$'000 (audited)
Non-current assets			
Plant and equipment		47	42
Mining right		–	–
Investments in associates		1,139	1,145
Financial assets at fair value through profit or loss		3,741	–
Available-for-sale investments		–	2,449
Club memberships		884	888
		<u>5,811</u>	<u>4,524</u>
Current assets			
Inventories		1,211	2,098
Trade and other receivables	10	21,516	12,641
Amount due from an associate		2,900	2,382
Amount due from a non-controlling shareholder of a subsidiary		3,556	3,616
Financial assets at fair value through profit or loss		857	–
Held-for-trading investments		–	1,251
Cash and cash equivalents		14,264	18,364
		<u>44,304</u>	<u>40,352</u>
Current liabilities			
Trade and other payables	11	31,761	25,804
Amount due to a related party		4,405	165
Amounts due to non-controlling shareholders of subsidiaries		3,610	3,671
Tax payables		6,432	6,409
Other borrowings	12	–	14,878
		<u>46,208</u>	<u>50,927</u>
Net current liabilities		<u>(1,904)</u>	<u>(10,575)</u>
Total assets less current liabilities		<u>3,907</u>	<u>(6,051)</u>

	Notes	30/6/2018 HK\$'000 (unaudited)	31/12/2017 HK\$'000 (audited)
Capital and reserves			
Share capital	13	91,778	91,778
Reserves		(76,493)	(60,369)
Equity attributable to owners of the Company			
		15,285	31,409
Non-controlling interests			
		(38,449)	(37,460)
		(23,164)	(6,051)
Non-current liabilities			
Other borrowings	12	14,630	–
Interest payables		12,441	–
		27,071	–
		3,907	(6,051)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the six months ended 30 June 2018*

	Share capital	Share premium	Special reserve	Translation reserve	Statutory funds	Share option reserve	Accumulated losses	Attributable to owners of the Company	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2017 (audited)	83,206	395,962	2,481	62,370	30,132	991	(468,479)	106,663	37,749	144,412
Loss for the period	-	-	-	-	-	-	(5,361)	(5,361)	(1,678)	(7,039)
Exchange differences arising on translation from functional currency to presentation currency	-	-	-	4,863	-	-	-	4,863	1,331	6,194
Total comprehensive income for the period	-	-	-	4,863	-	-	(5,361)	(498)	(347)	(845)
Issue of ordinary shares	8,572	21,429	-	-	-	-	-	30,001	-	30,001
At 30 June 2017 (unaudited)	91,778	417,391	2,481	67,233	30,132	991	(473,840)	136,166	37,402	173,568
At 1 January 2018 as originally presented (audited)	91,778	417,391	2,481	68,829	30,132	991	(580,193)	31,409	(37,460)	(6,051)
Initial application of HKFRS 9 (Note 3)	-	-	-	79	-	-	1,369	1,448	-	1,448
Restated at 1 January 2018 (unaudited)	91,778	417,391	2,481	68,908	30,132	991	(578,824)	32,857	(37,460)	(4,603)
Loss for the period	-	-	-	-	-	-	(17,584)	(17,584)	(1,682)	(19,266)
Exchange differences arising on translation from functional currency to presentation currency	-	-	-	12	-	-	-	12	693	705
Total comprehensive income for the period	-	-	-	12	-	-	(17,584)	(17,572)	(989)	(18,561)
At 30 June 2018 (unaudited)	91,778	417,391	2,481	68,920	30,132	991	(596,408)	15,285	(38,449)	(23,164)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS*For the six months ended 30 June 2018*

	Six months ended	
	30/6/2018	30/6/2017
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash used in operating activities	(8,324)	(23,476)
Net cash generated from investing activities	91	91
Net cash generated from financing activities	4,240	29,584
Net (decrease)/increase in cash and cash equivalents	(3,993)	6,199
Cash and cash equivalents at 1 January	18,364	16,000
Effect of foreign exchange rate changes	(107)	745
Cash and cash equivalents at 30 June	14,264	22,944

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. General

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

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

2. Basis of preparation

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2018 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 2017 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 2017, except for the adoption of new standards effective as of 1 January 2018. The other new or amended HKFRSs that are effective from 1 January 2018 did not have any material impact on the Group's accounting policies. The Group has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

The Group applies, for the first time, HKFRS 9 Financial Instruments. The nature and effect of these changes are disclosed below.

HKFRS 9 Financial Instruments replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the condensed consolidated financial statements. The new accounting policies are set out below. In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated.

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The following adjustments were made to the condensed consolidated statement of financial position at the date of initial application, 1 January 2018. The impact on adopting HKFRS 9 is as follows:

	31 December 2017 (Audited)	Reclassification*	Remeasurement	1 January 2018 (Unaudited)
	Under HKAS 39 HK\$'000	HK\$'000	HK\$'000	Under HKFRS 9 HK\$'000
Non-current assets				
Available-for-sale investments	2,449	(2,449)	-	-
Financial assets at fair value through profit or loss	-	2,449	1,448	3,897
Current assets				
Held-for-trading investments	1,251	(1,251)	-	-
Financial assets at fair value through profit or loss	-	1,251	-	1,251
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

* Available-for-sale investments and held-for-trading investments under HKAS 39 were reclassified to financial assets at fair value through profit or loss under HKFRS 9.

The following tables summarised the impact, net of tax, of transition to HKFRS 9 on the opening balance of translation reserve and accumulated losses as of 1 January 2018 as follows:

	Translation reserve	Accumulated losses
	HK\$'000	HK\$'000
As at 31 December 2017 (audited)	68,829	(580,193)
Remeasurement from Available-for-sale investments	79	1,369
	<u> </u>	<u> </u>
Restated as at 1 January 2018 (unaudited)	<u>68,908</u>	<u>(578,824)</u>

Classification and measurement

Under HKFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under HKFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss ("FVTPL"), amortised cost, or financial assets at fair value through comprehensive income ("FVOCI"). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent "solely payments of principal and interest" on the principal amount outstanding (the "SPPI criterion").

Financial assets at FVTPL comprise equity instruments which the Group had not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Under HKAS 39, the Group's equity instruments were classified as available-for-sale investments financial assets.

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Group's financial liabilities remains largely the same as it was under HKAS 39.

Impairment

The adoption of HKFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss "ECL" approach. The Group records an allowance for ECLs on financial assets which are subject to impairment under HKFRS 9, including all loans and other debt financial assets and contract assets. For trade receivables and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic conditions. For other debt financial assets (i.e. other receivables, loans to related parties), the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The adoption of the ECL requirements of HKFRS 9 did not have a significant impact on the impairment of the financial assets of the Group.

4. Segment information and revenue

(a) Reportable segments and reconciliation of reportable segment revenue, profit or loss, assets and liabilities

The Group determines its operating segments based on the reports reviewed by the chief operating decision-makers (the "CODM") that are used to make strategic decisions.

During the six months ended 30 June 2018, the Group has two reportable segments. The segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

- Mobile phone business
- Mining business

Corporate expenses, corporate assets and corporate liabilities are not allocated to the reportable segments as they are not included in the measure of the segments' profit or loss, segments' assets and segments' liabilities that are used by the CODM for assessment of segment performance.

For the six months ended 30 June 2018 (unaudited)

	Mobile phone business HK\$'000	Mining business HK\$'000	Total HK\$'000
Reportable segment revenue from external customers	39,479	–	39,479
Reportable segment loss	(13,243)	(862)	(14,105)
Impairment loss recognised in respect of prepayments paid to a supplier	10,694	–	10,694
Value-added-tax paid	1,677	–	1,677
Recovery of write down of inventories	(29)	–	(29)
Revenue			
Reportable segment revenue and consolidated revenue			39,479
Loss before income tax			
Reportable segment loss			(14,105)
Fair value loss on financial assets at fair value through profit or loss			(421)
Interest income			39
Miscellaneous income			390
Staff costs (including directors' remunerations)			(2,693)
Corporate expenses			(1,759)
Share of results of associates			(6)
Finance costs			(646)
Consolidated loss before income tax			(19,201)

As at 30 June 2018 (unaudited)

	Mobile phone business HK\$'000	Mining business HK\$'000	Total HK\$'000
Reportable segment assets	36,000	5,520	41,520
Reportable segment liabilities	(21,022)	(40,039)	(61,061)

Assets

Reportable segment assets	41,520
Unallocated corporate assets	
– Investments in associates	1,139
– Financial assets at fair value through profit or loss	4,598
– Club memberships	884
– Cash and cash equivalents	1,315
– Others	659
Consolidated total assets	50,115

Liabilities

Reportable segment liabilities	61,061
Unallocated corporate liabilities	
– Tax payables	4,574
– Amount due to director, Mr. LAU Siu Ying ("Mr. LAU")	4,405
– Others	3,239
Consolidated total liabilities	73,279

For the six months ended 30 June 2017 (unaudited)

	Mobile phone business HK\$'000	Mining business HK\$'000	Total HK\$'000
Reportable segment revenue from external customers	542	–	542
Reportable segment loss	(1,318)	(903)	(2,221)
Loss on disposal/written off of plant and equipment	36	–	36
Depreciation and amortisation	3	152	155
Recovery of write down of inventories	(107)	–	(107)
Revenue			
Reportable segment revenue and consolidated revenue			542
Loss before income tax			
Reportable segment loss			(2,221)
Interest income			85
Miscellaneous income			392
Staff costs (including directors' remunerations)			(2,817)
Corporate expenses			(1,879)
Share of results of associates			(6)
Finance costs			(593)
Consolidated loss before income tax			(7,039)

As at 31 December 2017 (audited)

	Mobile phone business HK\$'000	Mining business HK\$'000	Total HK\$'000
Reportable segment assets	29,902	5,181	35,083
Reportable segment liabilities	(3,936)	(39,247)	(43,183)

Assets

Reportable segment assets	35,083
Unallocated corporate assets	
– Investments in associates	1,145
– Available-for-sale investments	2,449
– Held-for-trading investments	1,251
– Club memberships	888
– Cash and cash equivalents	3,508
– Others	552
Consolidated total assets	44,876

Liabilities

Reportable segment liabilities	43,183
Unallocated corporate liabilities	
– Tax payables	4,574
– Amount due to director, Mr. LAU	165
– Others	3,005
Consolidated total liabilities	50,927

(b) Revenue

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

5. Other gains and losses

	Six months ended	
	30/6/2018	30/6/2017
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Impairment loss recognised in respect of prepayments paid to a supplier	(10,694)	–
Fair value loss on financial assets at fair value through profit or loss	(421)	–
Loss on disposal/written off of plant and equipment	–	(36)
Value-added-tax paid	(1,677)	–
Exchange gain	–	2
	(12,792)	(34)

6. Finance costs

	Six months ended	
	30/6/2018	30/6/2017
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interests on other borrowings wholly repayable within five years	646	593

7. Income tax expense

For the six months ended 30 June 2018 and 2017, the Group's subsidiaries in the People's Republic of China (the "PRC") were subject to the Enterprise Income Tax rate of 25%.

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
30/6/2018 30/6/2017
HK\$'000 HK\$'000
(unaudited) (unaudited)

Loss for the period has been arrived at

after charging:

Depreciation of plant and equipment	6	166
Staff costs		
– directors' emoluments	1,786	2,114
– other staff costs	1,664	1,622
– retirement benefit scheme contribution (excluding directors)	84	88
	3,534	3,824

and after crediting:

Service income from provision of logistics and promotion services	–	41
Interest income	39	85

9. Loss per share

The calculation of loss per share for the six months ended 30 June 2018 is based on the loss for the period attributable to owners of the Company of HK\$17,584,000 (30 June 2017: loss of HK\$5,361,000) and the weighted average number of 917,779,442 shares in issue during the period (30 June 2017: 905,466,646 shares in issue).

No diluted loss per share is presented as the effect of all potential ordinary shares is anti-dilutive for the period ended 30 June 2018 and 2017.

10. Trade and other receivables

	30/6/2018 HK\$'000 (unaudited)	31/12/2017 HK\$'000 (audited)
Trade receivables	32,707	14,148
Less: accumulated allowance	(14,134)	(14,135)
	18,573	13
Value-added-tax receivables	216	379
Prepayments to suppliers	36,845	36,641
Other receivables and deposits	8,368	7,847
Less: accumulated allowance	(42,486)	(32,239)
	21,516	12,641

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

	30/6/2018 HK\$'000 (unaudited)	31/12/2017 HK\$'000 (audited)
Trade receivables:		
0 to 30 days	18,559	3
31 to 90 days	–	9
Over 90 days	14	1
	18,573	13

11. Trade and other payables

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

	30/6/2018 HK\$'000 (unaudited)	31/12/2017 HK\$'000 (audited)
Trade payables:		
0 to 30 days	17,006	–
31 to 90 days	–	–
Over 90 days	46	204
	17,052	204
Value-added-tax payables	227	–
Prepayments from customers	1,144	1,221
Other payables and accruals	13,338	24,379
	31,761	25,804

12. Other borrowings

	30/6/2018 HK\$'000 (unaudited)	31/12/2017 HK\$'000 (audited)
Secured other borrowings		
– repayable within one year	–	14,878
– repayable after one year	14,630	–
	14,630	14,878

At the end of reporting period, the Group's other borrowings were pledged by 100,000 (31 December 2017: 100,000) tons of minerals reserve, carrying at a fixed annual interest rate of 8.47% (31 December 2017: 8.47%) per annum and repayable within two years (31 December 2017: within one year).

At 30 June 2018 and 31 December 2017, the Group did not have any banking facilities.

13. Share capital

	Number of ordinary shares	Share capital HK\$'000
Ordinary shares of HK\$0.10 each		
<i>Authorised:</i>		
At 31 December 2017 and 30 June 2018	2,000,000,000	200,000
<i>Issued and fully paid:</i>		
At 31 December 2017 and 30 June 2018	917,779,442	91,778

14. Related party disclosures**(a) Related party transactions**

	Six months ended 30/6/2018 HK\$'000 (unaudited)	30/6/2017 HK\$'000 (unaudited)
Purchase of goods from a subsidiary of non-controlling shareholder of a subsidiary	11,107	–

(b) Amount due from an associate

	30/6/2018 HK\$'000 (unaudited)	31/12/2017 HK\$'000 (audited)
Associate	2,900	2,382

The balance is unsecured, interest-free and repayable on demand.

(c) Amounts due to related parties

	30/6/2018 HK\$'000 (unaudited)	31/12/2017 HK\$'000 (audited)
Mr. Lau (Note 1)	4,405	165
A subsidiary of non-controlling shareholder of a subsidiary (Note 2)	12,361	–

Notes:

- The balance is unsecured, interest-free and repayable on demand.
- Balances are trade in nature, non-interest-bearing and have a credit term of 60 days, which are similar to those granted to major trading suppliers of the Group.

(d) Compensation of key management personnel and senior management

The remuneration of directors and other members of the Group's key management during the period was as follows:

	Six months ended 30/6/2018 HK\$'000 (unaudited)	30/6/2017 HK\$'000 (unaudited)
Short-term benefits	2,023	2,286
Post-employment benefits	30	35
	2,053	2,321

15. Fair value measurements of financial instruments

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets measured at fair values in the interim condensed consolidated statement of financial position in accordance with the fair value hierarchy at 30 June 2018.

	Level 1 (unaudited) HK\$'000	Level 2 (unaudited) HK\$'000	Level 3 (unaudited) HK\$'000	Total (unaudited) HK\$'000
Assets				
Financial assets at fair value through profit or loss				
– Unlisted equity investments in PRC	–	–	3,672	3,672
– Unlisted equity investments in Hong Kong	–	–	69	69
– Listed equity investments in PRC	857	–	–	857
	<hr/>	<hr/>	<hr/>	<hr/>
Total financial assets	857	–	3,741	4,598
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The following table presents the Group's assets measured at fair values in the interim condensed consolidated balance sheet in accordance with the fair value hierarchy at 31 December 2017.

	Level 1 (audited) HK\$'000	Level 2 (audited) HK\$'000	Level 3 (audited) HK\$'000	Total (audited) HK\$'000
Assets				
Available-for-sale investments				
– Unlisted equity investments in PRC	–	–	2,380	2,380
– Unlisted equity investments in Hong Kong	–	–	69	69
Held-for-trading investments				
– Listed equity investments in PRC	1,251	–	–	1,251
Total financial assets	1,251	–	2,449	3,700

There were no transfers between levels 1 and 2 or into or out of level 3 during the period.

Information about Level 3 fair value measurement

At 30 June 2018, the unlisted equity investments in PRC represented a fund placed with a private equity investment fund institution in the PRC. The fund is mainly invested in property investments in the PRC. The fair value of unlisted equity investments are determined with reference to capital statements provided by the private equity investment fund institution.

Valuation process

The valuations of financial assets carried at fair value for financial reporting purposes have been reviewed and reported directly to the senior management.

16. Dividend

The Board did not declare an interim dividend for the six months ended 30 June 2018 and 30 June 2017.

By the order of the Board

China Fortune Holdings Limited

Lau Siu Ying

Chairman and Chief Executive Officer

Hong Kong, 27 August 2018

As at the date of this report, the Board comprises two executive directors, namely Mr. Lau Siu Ying and Mr. Wang Yu; one non-executive director, namely Mr. Bao Kang Rong; three independent non-executive directors, namely Dr. Law Chun Kwan, Mr. Lam Man Kit and Dr. Lo Wai Shun.