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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 Ltd.)

(Stock code: 110)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2009

INTERIM RESULTS

The board of directors (the “Board”) of China Fortune Holdings Limited (the “Company”) is pleased to present the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2009, 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 2009

	Note	Six months ended 30/06/2009 HK\$' 000 (unaudited)	30/06/2008 HK\$' 000 (unaudited)
Continuing operations			
Revenue	3	960,470	1,026,388
Cost of sales		(940,291)	(999,826)
Gross profit		20,179	26,562
Other gains, net		2,789	7,793
Selling and distribution costs		(11,027)	(14,905)
Administrative expenses		(9,249)	(12,316)
Reserval of (allowance for) trade and other receivables		15,048	(279)
Impairment loss recognised in respect of available-for-sale investment		(217)	—
Gain on disposal of an associate		—	104
Share of results of associates		331	(1,687)
Finance costs	5	(1,202)	(6,224)
Profit (loss) before tax		16,652	(952)
Income tax charge	6	(20)	(676)
Profit (loss) for the period from continuing operations		16,632	(1,628)
Discontinued operations			
Loss for the period from discontinued operations	7	(4,316)	—
Profit (loss) for the period	8	12,316	(1,628)
Attributable to:			
Owners of the Company		12,318	(1,152)
Non-controlling interests		(2)	(476)
		12,316	(1,628)
Earnings (loss) per share	9		
<i>From continuing and discontinued operations</i>			
Basic (HK cent(s))		3.3	(0.3)
<i>From continuing operations</i>			
Basic (HK cent(s))		4.5	(0.3)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2009

	Six months ended	
	30/06/2009	30/06/2008
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit (loss) for the period	12,316	(1,628)
Other comprehensive income		
Exchange differences arising on translation of functional currency	—	6,202
Share of reserves of associates	—	(92)
Other comprehensive income for the period	—	6,110
Total comprehensive income for the period	12,316	4,482
Total comprehensive income attributable to:		
Owners of the Company	12,318	4,815
Non-controlling interests	(2)	(333)
	12,316	4,482

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2009

	Note	30/06/2009 HK\$'000 (unaudited)	31/12/2008 HK\$'000 (audited)
Non-current assets			
Plant and equipment		2,179	2,999
Goodwill		2,910	7,820
Investments in associates		5,211	4,880
Available-for-sale investment		70	286
Deposit paid for acquisition of a subsidiary		25,000	25,000
Other assets - non-current portion		—	11,400
Club memberships		1,276	1,276
		<u>36,646</u>	<u>53,661</u>
Current assets			
Inventories		108,330	160,254
Trade and other receivables	10	76,351	76,820
Bills receivable	10	—	673
Other assets – current portion		16,701	11,400
Amount due from a minority shareholder of a subsidiary		5,583	5,691
Taxation recoverable		1,783	529
Pledged bank deposits		30,612	30,392
Cash and cash equivalents		27,020	45,912
		<u>266,380</u>	<u>331,671</u>
Assets classified as held for sale		17,561	—
		<u>283,941</u>	<u>331,671</u>

	Note	30/06/2009 HK\$'000 (unaudited)	31/12/2008 HK\$'000 (audited)
Current liabilities			
Trade and other payables	11	47,601	80,180
Amount due to a director		1,046	—
Amount due to an associate		500	500
Taxation payables		4,837	4,582
Bank borrowings	12	44,252	52,660
Other financial liabilities		3,092	52,630
		<u>101,328</u>	<u>190,552</u>
Liabilities associated with assets classified as held for sale		<u>12,163</u>	<u>—</u>
		<u>113,491</u>	<u>190,552</u>
Net current assets		<u>170,450</u>	<u>141,119</u>
Total assets less current liabilities		<u>207,096</u>	<u>194,780</u>
Capital and reserves			
Issued capital		37,279	37,279
Reserves		164,537	152,219
Equity attributable to owners of the Company		201,816	189,498
Non-controlling interests		5,280	5,282
Total equity		<u>207,096</u>	<u>194,780</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2009

	Issued capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Translation reserve HK\$'000	Statutory funds HK\$'000	Share option reserve HK\$'000	Attributable to owners Accumulated losses HK\$'000	of the Company HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
Balance at 1 January 2008 (audited)	37,279	195,183	2,481	37,452	26,130	5,168	(48,630)	255,063	5,076	260,139
Loss for the period	—	—	—	—	—	—	(1,152)	(1,152)	(476)	(1,628)
Exchange differences arising on translation of functional currency to presentation currency	—	—	—	6,059	—	—	—	6,059	143	6,202
Share of reserves of associates	—	—	—	(92)	—	—	—	(92)	—	(92)
Total comprehensive income for the period	—	—	—	5,967	—	—	(1,152)	4,815	(333)	4,482
Transfer to PRC statutory funds	—	—	—	—	4,002	—	(4,002)	—	—	—
Transfer of reserve upon forfeiture of share options	—	—	—	—	—	(40)	40	—	—	—
Balance at 30 June 2008 (unaudited)	37,279	195,183	2,481	43,419	30,132	5,128	(53,744)	259,878	4,743	264,621
Balance at 1 January 2009 (audited)	37,279	195,183	2,481	50,606	30,132	5,097	(131,280)	189,498	5,282	194,780
Profit for the period	—	—	—	—	—	—	12,318	12,318	(2)	12,316
Total comprehensive income for the period	—	—	—	—	—	—	12,318	12,318	(2)	12,316
Balance at 30 June 2009 (unaudited)	37,279	195,183	2,481	50,606	30,132	5,097	(118,962)	201,816	5,280	207,096

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2009

	Six months ended	
	30/06/2009	30/06/2008
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash from (used in) operating activities	32,990	(14,210)
Net cash from investing activities	4,588	56,199
Net cash used in financing activities	(56,470)	(70,973)
Net decrease in cash and cash equivalents	(18,892)	(28,984)
Cash and cash equivalents at 1 January	45,912	82,891
Effect of foreign exchange rate changes	—	1,020
Cash and cash equivalents at 30 June	27,020	54,927
Represented by:		
Bank balances and cash	27,020	56,904
Bank overdrafts	—	(1,977)
	27,020	54,927

Notes:-

1. Basis of preparation

The unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2009 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 of Hong Kong Limited (the “Stock Exchange”) and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

2. Principal accounting policies

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at revalued amounts or fair values, as appropriate.

In the current interim period, the Group has applied, the following new or revised standards, amendments and interpretations issued by the HKICPA, which are effective for the Group’s financial year beginning on 1 January 2009.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after 1 July 2009
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation

The adoption of these new or revised standards, amendments and interpretations had no material effect on the results and financial position of the Group for the current and/or prior accounting periods. Accordingly, no prior period adjustment has been required.

Except as described below, the same accounting policies, presentation and methods of computation have been followed in these unaudited condensed consolidated financial statements as were applied in the preparation of the Group’s consolidated financial statements for the year ended 31 December 2008.

HKAS 1 (Revised) – Presentation of Financial Statements

HKAS 1 (Revised) has introduced a number of terminology changes (including revised titles for the condensed consolidated financial statements) and has resulted in a number of changes in presentation and disclosure. However, HKAS 1 (Revised) has had no impact on the reported results or financial position of the Group.

The Group has not early applied the following new or revised standards, amendments and interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendment to HKFR 5 as part of Improvements to HKFRSs issued in 2008 ¹
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 ²
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ¹
HKAS 39 (Amendment)	Eligible Hedged Items ¹
HKFRS 3 (Revised)	Business Combinations ¹
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners ¹
HK(IFRIC) – Int 18	Transfers of Assets from Customers ³

¹ Effective for annual periods beginning on or after 1 July 2009.

² Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate.

³ Effective for transfers on or after 1 July 2009.

The Directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. Revenue

Revenue represents the net amounts received and receivable for goods sold and services provided by the Group to outside customers during the period.

4. Segment information

The Group has adopted HKFRS 8 *Operating Segments* with effect from 1 January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating marker in order to allocate resources to segments and to assess their performance. In contrast, the predecessor standard (HKAS14 *Segment Reporting*) required an entity to indentify two sets of segments (business and geographical) using a risks and returns approach, with the entity's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments. In the past, the Group's primary reporting format was geographical segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment revenue and results.

The Group's operations are located in the PRC and Hong Kong. The following table provides an analysis of the Group's revenue and results by operating segment for the period under review:

Six months ended 30 June 2009 (unaudited)

	Continuing operations		Discontinued operations	
	The PRC	Total	Hong Kong	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	960,470	960,470	48,703	1,009,173
Results Segment profit	21,879	21,879	731	22,610
Interest income		815	—	815
Unallocated corporate income		563	—	563
Finance costs		(1,202)	(45)	(1,247)
Unallocated corporate expenses		(5,517)	—	(5,517)
Impairment loss recognised in respect of available-for-sale investment		(217)	—	(217)
Impairment loss recognised in respect of goodwill		—	(4,910)	(4,910)
Share of results of associates		331	—	331
Profit (loss) before tax		16,652	(4,224)	12,428

Six months ended 30 June 2008 (unaudited)

	Continuing operations			
	The PRC	Total	Hong Kong	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	884,807	884,807	141,581	1,026,388
Results Segment profit	8,473	8,473	2,652	11,125
Interest income		964	2	966
Unallocated corporate income		314	—	314
Finance costs		(6,128)	(96)	(6,224)
Unallocated corporate expenses		(5,550)	—	(5,550)
Gain on disposal of an associate		104	—	104
Share of results of associates		(1,687)	—	(1,687)
(Loss) profit before tax		(3,510)	2,558	(952)

5. Finance costs

	Six months ended	
	30/06/2009	30/06/2008
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Continuing operations		
Interest expense on:		
Borrowings wholly repayable within five years	1,202	1,436
Other financial liabilities	—	4,788
	1,202	6,224
Discontinued operations		
Interest expense on:		
Borrowings wholly repayable within five years	45	—
	1,247	6,224

6. Income tax charge

	Six months ended	
	30/06/2009	30/06/2008
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Continuing operations		
Current tax		
Hong Kong Profits Tax	—	242
PRC Enterprise Income Tax	20	434
Income tax charge relating to continuing operations	20	676
Discontinued operations		
Income tax charge relating to discontinued operations		
Current tax in Hong Kong	92	—
	112	676

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

PRC Enterprise Income Tax represents taxation charge on the assessable profits of the Company's subsidiaries, Fortune (Shanghai) International Trading Co., Ltd. ("Fortune Shanghai") and 上海遠嘉國際貿易有限公司 ("Shanghai Yuanjia") and 珠海市雷鳴達通訊設備有限公司 ("Zhuhai Reminda").

A standard rate of 25% will be applied for Fortune Shanghai and Shanghai Yuanjia from year 2008 onwards. For Zhuhai Reminda, the tax will ratchet up to 18%, 22%, 24%, 25% in 2008 to 2011 respectively.

7. Discontinued operations

On 3 August 2009, the Group entered into a sale and purchase agreement to dispose of the entire interest in Synergy Technologies (Asia) Limited, which carried out the distribution business in Hong Kong.

The loss for the period ended 30 June 2009 from the discontinued operations was analysed as follows:

	01/01/2009 to 30/06/2009 HK\$'000
Profit of distribution business in Hong Kong for the period	594
Impairment loss recognised in respect of goodwill	(4,910)
	<u>(4,316)</u>

The results of the period ended 30 June 2009 from the distribution business in Hong Kong were as follows:

	01/01/2009 to 30/06/2009 HK\$'000
Revenue	48,703
Cost of sales	(46,650)
	<u>2,053</u>
Gross profit	5,514
Other gains, net	(2,928)
Selling and distribution costs	(3,908)
Administrative expenses	(45)
Finance costs	<u>686</u>
Profit before tax	(92)
Income tax charge	<u>594</u>
Profit for the period	<u><u>594</u></u>

8. Profit (loss) for the period

Profit (loss) for the period has been arrived at after charging (crediting):

	Six months ended					
	Continuing operations		Discontinued operations		Consolidated	
	30/06/2009	30/06/2008	30/06/2009	30/06/2008	30/06/2009	30/06/2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Depreciation of plant and equipment	627	765	20	—	647	765
Interest income	(815)	(966)	—	—	(815)	(966)
Exchange loss (gain), net (<i>Note</i>)	395	(961)	29	—	424	(961)
Staff costs, comprising:						
– Directors' emoluments	1,147	1,066	—	—	1,147	1,066
– Other staff costs	5,913	10,437	2,694	—	8,607	10,437
	<u>7,060</u>	<u>11,503</u>	<u>2,694</u>	<u>—</u>	<u>9,754</u>	<u>11,503</u>

Note: Amounts included in other gains, net.

9. Earnings (loss) per share

From continuing and discontinued operations

The calculation of the basic earnings (loss) per share attributable to owners of the Company is based on the following data:

	Six months ended	
	30/06/2009	30/06/2008
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
<i>Earnings (loss)</i>		
Profit (loss) for the period attributable to owners of the Company	12,318	(1,152)
<i>Number of shares</i>	'000	'000
Weighted average number of ordinary shares in issue	372,790	372,790
Basic earnings (loss) per share (HK cent(s))	3.3	(0.3)

From continuing operations

Earnings (loss) figures are calculated as follows:

	Six months ended	
	30/06/2009	30/06/2008
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
<i>Earnings (loss)</i>		
Profit (loss) for the period attributable to owners of the Company	12,318	(1,152)
Add: loss for the period from discontinued operations	4,316	—
Basic earnings (loss) per share from continuing operations	16,634	(1,152)
<i>Number of shares</i>	'000	'000
Weighted average number of ordinary shares in issue	372,790	372,790
Basic earnings (loss) per share (HK cent(s))	4.5	(0.3)

No diluted earnings per share is presented as the exercise price of the Company's share options was higher than the average market price for the period ended 30 June 2009.

10. Trade, bills and other receivables

	30/06/2009 HK\$'000 (unaudited)	31/12/2008 HK\$'000 (audited)
Trade receivables	24,229	51,790
Less: accumulated allowance	(14,511)	(27,398)
	<u>9,718</u>	<u>24,392</u>
Value-added-tax receivables	4	10,919
Rebates receivables	26,049	28,363
Other receivables and deposits, net of allowance	40,580	13,146
	<u>76,351</u>	<u>76,820</u>
Bills receivable	—	673
	<u>76,351</u>	<u>77,493</u>

The Group allows credit period ranged from 30 to 90 days to its trade customers. The following is an aged analysis of the trade and bills receivables (net of allowance) at the balance sheet date:

	30/06/2009 HK\$'000 (unaudited)	31/12/2008 HK\$'000 (audited)
Trade and bills receivables:		
0 to 30 days	9,085	16,828
31 to 90 days	612	4,698
Over 90 days	21	3,539
	<u>9,718</u>	<u>25,065</u>

11. Trade and other payables

The following is an aged analysis of the trade payables at the balance sheet date:

	30/06/2009 HK\$'000 (unaudited)	31/12/2008 HK\$'000 (audited)
Trade payables		
0 to 30 days	512	36,258
31 to 90 days	211	1,404
Over 90 days	303	7,036
	1,026	44,698
Other payables and accruals	46,575	35,482
	47,601	80,180

12. Bank borrowings

	30/06/2009 HK\$'000 (unaudited)	31/12/2008 HK\$'000 (audited)
Bank borrowings comprise:		
Bank loans	44,252	51,071
Trust receipt loans	—	1,589
	44,252	52,660
Secured	37,752	45,660
Unsecured	6,500	7,000
	44,252	52,660

At the balance sheet date, the bank borrowings of the Group are repayable on demand or within one year.

13. Dividend

The Board did not declare an interim dividend for the six months ended 30 June 2009 (2008: Nil per share).

14. Post balance sheet event

On 3 August 2009, the Group entered into a sale and purchase agreement to dispose of the entire interest in Synergy Technologies (Asia) Limited (“STAL”) at a cash consideration of HK\$2,880,000. The disposal was completed on 24 August 2009, on which date the Group has ceased to have any interest in STAL. Accordingly, the figures from STAL and its subsidiary were classified as “Discontinued operations” during the period. Details are set out in note 7.

REVIEW AND OUTLOOK

Financial Review

The performance of the Group was significantly improved due to the amounts recovered from previous provision made for accounts and other receivables. The fulfillment distribution business for Nokia Stores continues to be a core business of the Group in which the Group is appointed as the sole fulfillment distributor for Nokia Stores in the People's Republic of China ("PRC"). As far as the distribution business in Hong Kong is concerned, due to the weak sentiment in the Hong Kong market which was experienced by the substantial drop in revenue during the period, the Group has disposed of this business in August 2009 with a view to focus its resources in the PRC market which offers more opportunities to the Group. Accordingly, the figures from this business segment were classified as "Discontinued operations" during the period. In order to ensure that the figures during the period as explained below are on a comparable basis with those of previous period, the figures for the current period included the ones from the continuing operations and the discontinued operations.

The Group recorded a consolidated revenue during the period of HK\$1,009.2 million when compared to the previous period of HK\$1,026.4 million. The slightly decrease in revenue was mainly attributable to an increase of around HK\$82 million from the fulfillment distribution business for Nokia Stores which was offset by the decrease of around HK\$93 million in the distribution business in Hong Kong due to the poor sentiment in the Hong Kong market after the global financial crisis in late 2008. The gross profit amounted to HK\$22.2 million, a slight decrease when compared to the previous period of HK\$26.6 million due to the reduction in contribution from the distribution business in Hong Kong. The gross margin percentage during the period was 2.2% which was comparable to the previous period of 2.6%.

The selling and distribution costs amounted to HK\$14.0 million when compared to the previous period of HK\$14.9 million as the overall revenue achieved during the period was comparable to the previous period. The administrative expenses amounted to HK\$13.2 million, a slight increase when compared to the previous period of HK\$12.3 million mainly due to the combined effect of the written off of a trade receivable of around HK\$3 million pursuant to the settlement of a legal case with a supplier for the distribution business in Hong Kong and the further reduction of staff cost amounting to around HK\$1.4 million.

Owing to the amounts recovered from previous provision made for accounts and other receivables in the old business (i.e. the national distribution business in the PRC), the Group has made an one-off gain of HK\$15.0 million during the period.

An impairment loss on goodwill was made during the period as the Group has foreseen such loss pursuant to the subsequent disposal of the distribution business in Hong Kong in August 2009.

As far as the mobile phone retail chain business in Zhuhai was concerned, the revenue achieved during the period amounted to HK\$15.1 million, a drop of 31% as compared with the previous period of HK\$21.8 million. The share of its loss by the Group during the period was minimal as compared to the previous period of HK\$0.5 million loss due to the streamlining of its staff cost during the period.

The Group shared a net gain of HK\$0.3 million from the results of two associates during the period as compared to the losses in the previous period of HK\$1.7 million due to the better performance of Intelligence Tech Limited during the period. Owing to the intense competition and weak sentiment for electronic products in the United States, the Group shared a loss of around HK\$0.4 million from Artchief Industries Ltd. while the Group shared a gain of around HK\$0.7 million from Intelligence Tech Limited subsequent to its focus on its hardware trading business in the PRC and the further streamlining of its staff cost.

The finance costs during the period were substantially reduced from HK\$6.2 million to HK\$1.2 million due to the decrease in the level of bank borrowings and decrease in other financial liabilities.

As a result of the above, the Group reported a net profit of HK\$12.3 million during the period when compared to the net loss of HK\$1.6 million in the previous period.

The net asset value of the Group as at 30 June 2009 amounted to HK\$201.8 million or HK\$0.54 per share when compared to HK\$189.5 million or HK\$0.51 per share as at 31 December 2008. As at 30 June 2009, the Group's aggregate bank borrowings amounted to HK\$44.3 million when compared to HK\$52.7 million as at 31 December 2008. The decrease in bank borrowings was mainly attributable to the intention of the Group to reduce its borrowing level.

The gearing ratio of the Group, defined as the ratio of the total long term liabilities to the shareholder's equity, was zero as the Group did not have any long term liability as at 30 June 2009. The total bank deposits and cash balances amounted to HK\$57.6 million as at 30 June 2009, of which HK\$30.6 million has been pledged to a bank. The Group is financed by a combination of its equity capital, cash flow generated from its operation and bank 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 2009 amounted to HK\$108.3 million, mainly comprised inventories from the fulfillment distribution business for Nokia Stores as the inventories from the distribution business in Hong Kong, amounting to around HK\$5 million, was included in the figure of “Assets classified as held for sales” pursuant to the subsequent disposal of the distribution business in Hong Kong after 30 June 2009. The inventories of the Group as of 31 December 2008 amounted to HK\$160.3 million in which around HK\$20 million was coming from the distribution business in Hong Kong. The inventory turnover period was 25 days for the six months ended 30 June 2009, same as the one for the twelve months ended 31 December 2008 of 25 days. 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 2009 was HK\$76.4 million, mainly comprised receivables from the fulfillment distribution business for Nokia Stores as the receivables from the distribution business in Hong Kong, amounting to around HK\$10 million, was included in the figure of “Assets classified as held for sales” as explained above. The trade and other receivables of the Group as of 31 December 2008 amounted to HK\$76.9 million in which around HK\$17 million was coming from the distribution business in Hong Kong. In order to minimize the credit risk for the trade receivables, the Group has implemented strict control on the determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the revenue generated from the fulfillment distribution business for Nokia Stores is mainly on cash basis which further reduces the credit risk of the Group.

On 4 September 2007, the Group and TeleChoice International Limited (“TeleChoice”), entered into an agreement to establish a subsidiary (the “Fulfillment Subsidiary”) to engage in the logistics and fulfillment business for Nokia Stores in the PRC (the “Fulfillment Business”). TeleChoice injected HK\$50 million for 40% equity interest in the Fulfillment Subsidiary, while the Group injected HK\$25 million for 60% equity interest therein. At the same time, the Company granted a put option to TeleChoice pursuant to which TeleChoice can require the Company to purchase its entire 40% equity interest in the Fulfillment Subsidiary at a price of HK\$50 million during the period from 1 March 2008 to 31 December 2008. The put option liability, representing a host debt instrument with a not closely related embedded non-option derivative which is linked to the profitability of the Fulfillment Business, was recognised as other financial liabilities. In late December 2008, TeleChoice exercised its put option and the Group has made several payments to TeleChoice during the period. Because of this, the financial liabilities due to TeleChoice amounting to HK\$52.6 million as of 31 December 2008 has reduced substantially to HK\$3.1 million as of 30 June 2009. Upon the completion of the exercise of this put option in early July 2009, the Group has settled the remaining balance due to TeleChoice.

As at 30 June 2009, the Group had in total 220 employees as compared to 218 employees as at 31 December 2008. 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.

OPERATIONAL REVIEW

Market Overview

According to the statistics released by the Ministry of Industry and Information Technology of the People's Republic of China ("MII"), there were more than 702 million subscribers to mobile phone services in the PRC as at the end of July 2009, equivalent to a penetration rate of 52.5 users per 100 persons. The low penetration rate in the rural market, where more than half of the population in the PRC resides, together with the 3G services and the continued economic growth in the PRC, mean that the PRC market still has a lot of untapped potential.

While there are continuing intense competitions among the big mobile phone manufacturers in the PRC, they are trying to cut the distribution layers by directly supplying to the provincial distributors and leading retailers with a view to increase their profitability. Because of this, leading vendors have developed multi-channel distribution models which include "national distribution", "provincial distribution", "direct to retail" and "direct to operator".

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

Business Review

The fulfillment distribution business for Nokia Stores, contributing to more than 90% of the Group's revenue, continued to make significant contribution to the overall performance of the Group during the period. It will continue to be a core business of the Group in view of the enormous mobile phone market in the PRC and the leading position of Nokia in the PRC market. On the other hand, the businesses of the associates and the subsidiary engaging in the mobile phone retail chain in Zhuhai of the Group remained a challenge due to the intense competition in the market. As far as the distribution business in Hong Kong is concerned, due to the weak sentiment in the Hong Kong market which was experienced by the substantial drop in revenue as explained before, the Group has disposed of this business in August 2009 with a view to focus its resources in the PRC market which offers more opportunities to the Group. In June 2009, the Group has entered into a deed of termination by mutual consents of the vendor (a wholly-owned subsidiary of the Company) and the purchaser (Mr. Lau Siu Ying, Chairman and CEO of the Company) to terminate the proposed disposal of 49% interest in the FTC distribution business.

Prospect and Outlook

With a view to further diversify the business of the Group, in July 2007, the Group contracted to acquire approximately 40.8% equity interest in a mining company in the PRC (the “PRC Mining Company”). The PRC Mining Company has the right to conduct mining activities in a mining site which is located in Huangshi, southeastern Hubei. The mining site has a general mining area of approximately 0.62 square kilometers and the mineral resources of the mining site include Celestite, Zinc and Lead. In November 2007, the Group further contracted to acquire another 10% equity interest in the PRC Mining Company. In January 2009, the Company issued a further circular on this transaction due to the restructuring of certain terms of these acquisitions. Such terms revision has been subsequently approved by the independent shareholders of the Company in February 2009 and the completion of this transaction is now pending for the fulfillment of certain conditions for the completion. The Group believes that this business segment in natural resources will become another core business of the Group in the near future as demand for mineral resources will be considerable in view of the continued growth of the PRC economy.

The continued economic growth in the PRC, supported by a high internal consumption, together with the room for expansion in the penetration rate of the mobile phone users in the PRC, and the recently launched 3G services create a huge market and great opportunities for the Group to move forward. The Group will continue to strengthen our existing relationships with the leading manufacturers and to look for new cooperation opportunities with all other manufacturers and operators with a view to establish a firm foundation for our future growth, based on our successful experience in the fulfillment distributorship business with Nokia.

With a view to diversify the business of the Group, the Group is actively looking for opportunities which will further enhance the shareholders’ value.

OTHER INFORMATION

Purchase, sale or redemption of shares and 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 Code on Corporate Governance Practices

The Company is committed to maintaining high standards of corporate governance. Throughout the six months ended 30 June 2009, the Company has complied with the Code on Corporate Governance Practices (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”), except that:

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

Audit Committee

The Company has formulated written terms of reference for the Audit Committee in accordance with the requirements of the Listing Rules. The Audit Committee comprises two Independent Non-executive Directors, Mr. Chang Wing Seng, Victor (Chairman of the Audit Committee) and Mr. Wong Lit Chor, Alexis and one Non-executive Director, Mr. Fung Oi Ip, Alfonso.

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

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the interim results of the Company for the six months ended 30 June 2009.

Remuneration Committee

The Company has formulated written terms of reference for the Remuneration Committee in accordance with the requirements of the Listing Rules. The Remuneration Committee comprises two Independent Non-executive Directors, Mr. Chang Wing Seng, Victor (Chairman of the Remuneration Committee) and Mr. Wong Lit Chor, Alexis and one Non-executive Director, Mr. Fung Oi Ip, Alfonso.

The Remuneration Committee is responsible for ensuring that formal and transparent procedures for developing remuneration packages of Directors and senior management. In determining the emolument payable to Directors, it takes into consideration factors such as remuneration paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and the desirability of performance-based remuneration.

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.

By Order of the Board
China Fortune Holdings Limited
Lau Siu Ying
Chairman

Hong Kong, 21 September 2009

As at the date of this announcement, the Board of Directors of China Fortune Holdings Limited comprises two Executive Directors, Mr. Lau Siu Ying and Mr. Luo Xi Zhi; two Non-executive Directors, Mr. Fung Oi Ip, Alfonso and Mr. Lo Wing Yat; and three Independent Non-executive Directors, Mr. Chang Wing Seng, Victor, Mr. Wong Lit Chor, Alexis and Mr. Chen Yi Gang.

* *For identification purpose only*