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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 2010

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 2010, 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 2010

	Note	Six months ended 30/6/2010 HK\$'000 (unaudited)	30/6/2009 HK\$'000 (unaudited)
Continuing operations			
Revenue	3	1,143,442	960,470
Cost of sales		<u>(1,108,396)</u>	<u>(940,291)</u>
Gross profit		35,046	20,179
Other income		2,317	3,184
Other losses and gains		(133)	14,436
Selling and distribution costs		(17,107)	(11,027)
Administrative expenses		(12,290)	(9,249)
Finance costs	5	(5,441)	(1,202)
Share of results of associates		<u>193</u>	<u>331</u>
Profit before taxation		2,585	16,652
Income tax charge	6	<u>(78)</u>	<u>(20)</u>
Profit for the period from continuing operations		2,507	16,632
Discontinued operations			
Loss for the period from discontinued operations	7	<u>—</u>	<u>(4,316)</u>
Profit for the period	8	<u>2,507</u>	<u>12,316</u>
Attributable to:			
Owners of the Company		3,279	12,318
Non-controlling interests		<u>(772)</u>	<u>(2)</u>
		<u>2,507</u>	<u>12,316</u>
Earnings per share			
<i>From continuing and discontinued operations</i>			
Basic and diluted (HK cent(s))	9	<u>0.4</u>	<u>3.3</u>
<i>From continuing operations</i>			
Basic and diluted (HK cent(s))	9	<u>0.4</u>	<u>4.5</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	Six months ended	
	30/6/2010	30/6/2009
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit for the period	<u>2,507</u>	<u>12,316</u>
Other comprehensive income		
Exchange differences arising on translation	<u>1,665</u>	<u>—</u>
Total comprehensive income for the period	<u>4,172</u>	<u>12,316</u>
Total comprehensive income attributable to:		
Owners of the Company	4,941	12,318
Non-controlling interests	<u>(769)</u>	<u>(2)</u>
	<u>4,172</u>	<u>12,316</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2010

	<i>Note</i>	30/6/2010 HK\$'000 (unaudited)	31/12/2009 HK\$'000 (audited)
Non-current assets			
Plant and equipment		7,594	6,701
Mining right		415,504	415,840
Goodwill		2,910	2,910
Investment in an associate		4,212	4,919
Available-for-sale investment		69	69
Club memberships		1,359	1,358
		<u>431,648</u>	<u>431,797</u>
Current assets			
Inventories		199,388	164,774
Trade and other receivables	10	123,236	85,849
Other assets — current portion		—	1,469
Amount due from a related party		1,285	5,721
Taxation recoverable		2,366	2,063
Bank balances and cash		32,083	7,264
		<u>358,358</u>	<u>267,140</u>
Current liabilities			
Trade and other payables	11	124,417	89,797
Amounts due to related parties		18,696	25,781
Taxation payables		4,716	4,579
Bank and other borrowings	12	71,134	14,010
Promissory notes		7,853	7,549
		<u>226,816</u>	<u>141,716</u>
Net current assets		<u>131,542</u>	<u>125,424</u>
Total assets less current liabilities		<u>563,190</u>	<u>557,221</u>
Capital and reserves			
Share capital	13	82,166	67,881
Reserves		181,398	90,373
Equity attributable to owners of the Company		263,564	158,254
Non-controlling interests		154,289	155,058
		<u>417,853</u>	<u>313,312</u>
Non-current liabilities			
Deferred tax liabilities		101,389	101,473
Convertible loan notes		—	100,306
Promissory notes		43,948	42,130
		<u>145,337</u>	<u>243,909</u>
		<u>563,190</u>	<u>557,221</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Translation reserve HK\$'000	Statutory funds HK\$'000	Share option reserve HK\$'000	Accumulated losses HK\$'000	Attributable to owners of the Company HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
Balance at 1 January 2009 (audited)	<u>37,279</u>	<u>195,183</u>	<u>2,481</u>	<u>50,606</u>	<u>30,132</u>	<u>5,097</u>	<u>(131,280)</u>	<u>189,498</u>	<u>5,282</u>	<u>194,780</u>
Profit for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>12,318</u>	<u>12,318</u>	<u>(2)</u>	<u>12,316</u>
Total comprehensive income (expense) for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>12,318</u>	<u>12,318</u>	<u>(2)</u>	<u>12,316</u>
Balance at 30 June 2009 (unaudited)	<u>37,279</u>	<u>195,183</u>	<u>2,481</u>	<u>50,606</u>	<u>30,132</u>	<u>5,097</u>	<u>(118,962)</u>	<u>201,816</u>	<u>5,280</u>	<u>207,096</u>
Balance at 1 January 2010 (audited)	<u>67,881</u>	<u>306,879</u>	<u>2,481</u>	<u>49,047</u>	<u>30,132</u>	<u>4,483</u>	<u>(302,649)</u>	<u>158,254</u>	<u>155,058</u>	<u>313,312</u>
Profit for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,279</u>	<u>3,279</u>	<u>(772)</u>	<u>2,507</u>
Exchange differences arising on translation	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,662</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,662</u>	<u>3</u>	<u>1,665</u>
Total comprehensive income (expense) for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,662</u>	<u>—</u>	<u>—</u>	<u>3,279</u>	<u>4,941</u>	<u>(769)</u>	<u>4,172</u>
Transfer of reserve upon forfeiture of share options	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(3)</u>	<u>3</u>	<u>—</u>	<u>—</u>	<u>—</u>
Issue of shares upon exercise of convertible loan notes	<u>14,285</u>	<u>86,084</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>100,369</u>	<u>—</u>	<u>100,369</u>
Balance at 30 June 2010 (unaudited)	<u>82,166</u>	<u>392,963</u>	<u>2,481</u>	<u>50,709</u>	<u>30,132</u>	<u>4,480</u>	<u>(299,367)</u>	<u>263,564</u>	<u>154,289</u>	<u>417,853</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2010

	Six months ended	
	30/6/2010	30/6/2009
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash (used in) from operating activities	(27,346)	32,990
Net cash from investing activities	5,306	4,588
Net cash from (used in) financing activities	<u>46,605</u>	<u>(56,470)</u>
Net increase (decrease) in cash and cash equivalents	24,565	(18,892)
Cash and cash equivalents at 1 January	7,264	45,912
Effect of foreign exchange rate changes	<u>254</u>	<u>—</u>
Cash and cash equivalents at 30 June	<u><u>32,083</u></u>	<u><u>27,020</u></u>
Represented by:		
Bank balances and cash	<u><u>32,083</u></u>	<u><u>27,020</u></u>

Notes:-

1. Basis of preparation

The unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2010 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.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2009, except as described below.

In the current interim period, the Group has applied the following new and revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by the HKICPA.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC) — Int 17	Distributions of Non-cash Assets to Owners

The Group applies HKFRS 3 (Revised) “Business Combinations” prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) “Consolidated and Separate Financial Statements” in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no material effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

The application of the other new and revised HKFRSs had no material effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs 2010 ¹
HKAS 24 (Revised)	Related Party Disclosures ⁴
HKAS 32 (Amendment)	Classification of Rights Issues ²
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters ³
HKFRS 9	Financial Instruments ⁵
HK(IFRIC) — Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement ⁴
HK(IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments ³

¹ Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.

² Effective for annual periods beginning on or after 1 February 2010.

³ Effective for annual periods beginning on or after 1 July 2010.

⁴ Effective for annual periods beginning on or after 1 January 2011.

⁵ Effective for annual periods beginning on or after 1 January 2013.

The Directors of the Company anticipate that the application of other new and revised 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 following is an analysis of the Group's revenue and results by operating segment.

Six months ended 30 June 2010 (unaudited)

	Mobile phone business				Mining business	
	Continuing	Discontinued	Elimination	Total	Continuing	Consolidated
	(PRC)	(HK)			(PRC)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue						
External sales	1,140,406	—	—	1,140,406	3,036	1,143,442
Inter-segment sales	—	—	—	—	—	—
	<u>1,140,406</u>	<u>—</u>	<u>—</u>	<u>1,140,406</u>	<u>3,036</u>	<u>1,143,442</u>
Results						
Segment results	<u>12,861</u>	<u>—</u>	<u>—</u>	<u>12,861</u>	<u>(486)</u>	12,375
Interest income						124
Miscellaneous income						56
Central administration costs						(4,722)
Finance costs						(5,441)
Share of results of associates						<u>193</u>
Profit before taxation						2,585
Income tax charge						<u>(78)</u>
Profit for the period						<u>2,507</u>

Six months ended 30 June 2009 (unaudited)

	Mobile phone business				Mining business	
	Continuing	Discontinued	Elimination	Total	Continuing	Consolidated
	(PRC)	(HK)			(PRC)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue						
External sales	960,470	48,703	—	1,009,173	—	1,009,173
Inter-segment sales	<u>33,207</u>	<u>290</u>	<u>(33,497)</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>993,677</u>	<u>48,993</u>	<u>(33,497)</u>	<u>1,009,173</u>	<u>—</u>	<u>1,009,173</u>
Results						
Segment results	<u>21,879</u>	<u>731</u>	<u>—</u>	<u>22,610</u>	<u>—</u>	22,610
Interest income						815
Miscellaneous income						563
Central administration costs						(5,517)
Finance costs						(1,247)
Impairment loss recognised in respect of available-for-sale investment						(217)
Impairment loss recognised in respect of goodwill						(4,910)
Share of results of associates						<u>331</u>
Profit before taxation						12,428
Income tax charge						<u>(112)</u>
Profit for the period						<u>12,316</u>

5. Finance costs

	Six months ended	
	30/6/2010	30/6/2009
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Continuing operations		
Interest expense on:		
Borrowings wholly repayable within five years	2,971	701
Bills discounting	285	—
Convertible loan notes	63	—
Earnest money received	—	501
Promissory notes	<u>2,122</u>	<u>—</u>
	5,441	1,202
Discontinued operations		
Interest expense on:		
Borrowings wholly repayable within five years	<u>—</u>	<u>45</u>
	<u>5,441</u>	<u>1,247</u>

6. Income tax charge

	Six months ended	
	30/6/2010	30/6/2009
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Continuing operations		
Current tax:		
Hong Kong Profits Tax	—	—
PRC Enterprise Income Tax (“EIT”)	162	20
Deferred tax (<i>Note</i>)	<u>(84)</u>	<u>—</u>
Income tax charge relating to continuing operations	78	20
Discontinued operations		
Income tax charge relating to discontinued operations:		
Current tax in Hong Kong	<u>—</u>	<u>92</u>
	<u>78</u>	<u>112</u>

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

PRC EIT represents tax charge on the assessable profits of the Company’s subsidiary, 珠海市雷鳴達通訊設備有限公司 (“Zhuhai Reminda”).

Fortune (Shanghai) International Trading Co., Ltd., 上海長遠忡科貿易有限公司 and 上海遠嘉國際貿易有限公司 were established in Shanghai Waigaoqiao Free Trade Zone, the PRC; and Zhuhai Reminda was established in Zhuhai Special Economic Zone, the PRC. Accordingly, for the six months ended 30 June 2010, these PRC subsidiaries were entitled to the EIT rate of 22%. 黃石鋸發礦業有限公司 was established in the PRC and subject to the EIT rate of 25% for the six months ended 30 June 2010.

Note:

The deferred tax liabilities were credited to consolidated financial statements during the period.

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:

	1/1/2009 to 30/6/2009 HK\$'000
Profit of distribution business in Hong Kong for the period ended 30 June 2009	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:

	1/1/2009 to 30/6/2009 HK\$'000
Revenue	48,703
Cost of sales	<u>(46,650)</u>
Gross profit	2,053
Other gains, net	5,514
Selling and distribution costs	(2,928)
Administrative expenses	(3,908)
Finance costs	<u>(45)</u>
Profit before tax	686
Income tax charge	<u>(92)</u>
Profit for the period ended 30 June 2009	<u>594</u>

The above disposal was completed on 24 August 2009 and the respective loss on disposal was HK\$5,081,000.

8. Profit for the period

	Six months ended					
	Continuing operations		Discontinued operations		Consolidated	
	30/6/2010	30/6/2009	30/6/2010	30/6/2009	30/6/2010	30/6/2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Depreciation of plant and equipment	839	627	—	20	839	647
Interest income	(124)	(815)	—	—	(124)	(815)
Exchange loss (Note)	184	395	—	29	184	424
Staff costs, comprising:						
-Directors' emoluments	1,132	1,147	—	—	1,132	1,147
-Other staff costs	<u>6,252</u>	<u>5,913</u>	<u>—</u>	<u>2,694</u>	<u>6,252</u>	<u>8,607</u>
	<u>7,384</u>	<u>7,060</u>	<u>—</u>	<u>2,694</u>	<u>7,384</u>	<u>9,754</u>

Note: Amounts included in other losses and gains.

9. Earnings per share

From continuing and discontinued operations

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

	Six months ended	
	30/6/2010	30/6/2009
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
<i>Earnings</i>		
Profit for the period attributable to owners of the Company	<u>3,279</u>	<u>12,318</u>
<i>Number of shares</i>	'000	'000
Weighted average number of ordinary shares in issue	819,296	372,790
Basic earnings per share (HK cent(s))	<u>0.4</u>	<u>3.3</u>

From continuing operations

Earnings figures are calculated as follows:

	Six months ended	
	30/6/2010	30/6/2009
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
<i>Earnings</i>		
Profit for the period attributable to owners of the Company	3,279	12,318
Add: loss for the period from discontinued operations	<u>—</u>	<u>4,316</u>
Basic earnings per share from continuing operations	<u>3,279</u>	<u>16,634</u>
<i>Number of shares</i>	'000	'000
Weighted average number of ordinary shares in issue	819,296	372,790
Basic earnings per share (HK cent(s))	<u>0.4</u>	<u>4.5</u>

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 both periods.

10. Trade and other receivables

	30/6/2010 HK\$'000 (unaudited)	31/12/2009 HK\$'000 (audited)
Trade receivables	29,849	24,922
Less: accumulated allowance	<u>(15,034)</u>	<u>(15,501)</u>
	14,815	9,421
Value-added-tax receivables	7,555	10,620
Rebates receivable	63,963	50,020
Other receivables and deposits	36,983	28,414
Less: accumulated allowance	<u>(80)</u>	<u>(12,626)</u>
	<u>123,236</u>	<u>85,849</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 receivables (net of allowance) presented based on the invoice date at the end of the reporting period:

	30/6/2010 HK\$'000 (unaudited)	31/12/2009 HK\$'000 (audited)
Trade receivables:		
0 to 30 days	13,416	8,555
31 to 90 days	824	486
Over 90 days	<u>575</u>	<u>380</u>
	<u>14,815</u>	<u>9,421</u>

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 the reporting period:

	30/6/2010 HK\$'000 (unaudited)	31/12/2009 HK\$'000 (audited)
Trade payables:		
0 to 30 days	1,636	3,539
31 to 90 days	184	99
Over 90 days	<u>1,139</u>	<u>2,163</u>
	2,959	5,801
Rebates payable	89,794	47,983
Other payables and accruals	<u>31,664</u>	<u>36,013</u>
	<u>124,417</u>	<u>89,797</u>

12. Bank and other borrowings

	30/6/2010 HK\$'000 (unaudited)	31/12/2009 HK\$'000 (audited)
Borrowings comprise:		
Bank loans	22,800	—
Other borrowings	<u>48,334</u>	<u>14,010</u>
	<u>71,134</u>	<u>14,010</u>
Secured	14,134	14,010
Unsecured	<u>57,000</u>	<u>—</u>
	<u>71,134</u>	<u>14,010</u>

At the end of the reporting period, the bank borrowings of the Group are repayable on demand or within one year.

13. Share capital

	Number of ordinary shares	Share capital HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 31 December 2009 and 30 June 2010	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid		
At 1 January 2009	372,790,000	37,279
Allotment of new shares (<i>Note 1</i>)	<u>306,016,300</u>	<u>30,602</u>
At 31 December 2009	678,806,300	67,881
Allotment of new shares (<i>Note 2</i>)	<u>142,857,142</u>	<u>14,285</u>
At 30 June 2010	<u>821,663,442</u>	<u>82,166</u>

Note 1: On 23 December 2009, the Group completed the acquisition of a mining company by allotting and issuing of 306,016,300 ordinary shares of HK\$0.10 each as part of the consideration of the said acquisition.

Note 2: On 23 December 2009, the Company issued convertible loan notes as part of the consideration of the said acquisition in Note 1 above. On 4 January 2010, the Company issued and allotted a total of 142,857,142 ordinary shares of HK\$0.10 each in the Company upon exercise in full by the holder of the said convertible loan notes.

14. Dividend

The Board did not declare an interim dividend for the six months ended 30 June 2010 (2009: Nil per share).

15. Comparative figures

Certain comparative figures have been reclassified to conform with the current period's presentation.

REVIEW AND OUTLOOK

Financial Review

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"). Besides, the Group has disposed the mobile phone distribution business in Hong Kong, named Synergy Technologies (Asia) Limited 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 previous corresponding period. In order to ensure that the figures during the period as explained below are on a comparable basis with those of previous corresponding period, the figures for the previous corresponding period included only the ones from the continuing operations.

The Group recorded a consolidated revenue during the period of HK\$1,143.4 million when compared to the previous corresponding period of HK\$960.5 million. The increase in revenue was mainly attributable to an increase from the fulfillment distribution business for Nokia Stores. The gross profit amounted to HK\$35.0 million, an increase when compared to the previous corresponding period of HK\$20.2 million. The gross margin percentage during the period was 3.1% which was a bit higher than the previous corresponding period of 2.1%. The newly acquired mining business commenced revenue contribution to the Group in this period, amounted to HK\$3.0 million.

The selling and distribution costs amounted to HK\$17.1 million when compared to the previous corresponding period of HK\$11.0 million. The administrative expenses amounted to HK\$12.3 million, an increase when compared to the previous corresponding period of HK\$9.2 million. Increases in various expenses in the period reflected a more challenging business environment in the industry. During the previous corresponding period, owing to the amounts recovered from previous provision made for accounts and other receivables in the old discontinued business (i.e. the national distribution business in the PRC), the Group has made a gain of HK\$15.0 million during the previous corresponding period. No such gain was made in this period.

As far as the mobile phone retail chain business in Zhuhai was concerned, the revenue achieved during the period amounted to HK\$20.5 million, an increase of 35.7% as compared with the previous corresponding period of HK\$15.1 million. The Group shared a profit from it during the period as compared to sharing a loss from it during the previous corresponding period.

The Group shared a net gain of HK\$0.2 million from the result of an associate during the period as compared to HK\$0.3 million from the results of 2 associates in the previous corresponding period. Intelligence Tech Limited, a previous associate of the Group, had been disposed in November 2009.

The finance costs during the period increased from HK\$1.2 million to HK\$5.4 million due to the increase in the level of bank and other borrowings as additional working capital for the Nokia Store fulfillment distribution business, and interest charges for the promissory notes.

A loss of HK\$4.3 million was recorded in the previous corresponding period for the discontinued distribution business in Hong Kong, which was disposed in August 2009.

As a result of the above, the Group reported a net profit of HK\$2.5 million during the period when compared to the profit of HK\$12.3 million in the previous corresponding period. The net asset value of the Group as at 30 June 2010 amounted to HK\$263.6 million or HK\$0.32 per share when compared to HK\$158.3 million or HK\$0.23 per share as at 31 December 2009. As at 30 June 2010, the Group's bank and other borrowings amounted to HK\$71.1 million, as compared to HK\$14.0 million as at 31 December 2009. The increase in bank and other borrowings was mainly attributable to restructuring the financing facilities for the Nokia Store fulfillment distribution business.

The gearing ratio of the Group, defined as the ratio of the total long term liabilities to the shareholder's equity, was 0.55 as at 30 June 2010 when compared to 1.54 as at 31 December 2009. As at 31 December 2009, there were convertible loan notes amounted to HK\$100.3 million which were fully converted into the Company's share on 4 January 2010. The reduction in the above gearing ratio was mainly attributable to this conversion.

The total bank deposits and cash balances amounted to HK\$32.1 million as at 30 June 2010 without any deposit pledged to banks. 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 2010 amounted to HK\$199.4 million, as compared to HK\$164.8 million as at 31 December 2009, mainly comprised inventories from the fulfillment distribution business for Nokia Stores. The inventory turnover period was 30 days for the six months ended 30 June 2010, as compared with the one for the twelve months ended 31 December 2009 of 29 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 2010 was HK\$123.2 million, as compared to HK\$85.8 million as at 31 December 2009. 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.

As at 30 June 2010, the Group had in total 259 employees as compared to 243 employees as at 31 December 2009. 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 ("MIIT"), there were more than 800 million subscribers to mobile phone services in the PRC as at the end of June 2010, equivalent to a penetration rate of 60.5 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.

On the other hand, 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 an associate 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. The Group has disposed the mobile phone distribution business in Hong Kong, named Synergy Technologies (Asia) Limited in August 2009 with a view to focus its resources in the PRC market which offers more opportunities to the Group.

The mining business acquired in December 2009 has started to generate revenue, although it has yet to generate a profit. The management is exploring all commercially viable opportunities to maximize the return from this investment including but not limited to improvement of infrastructure and expansion into processing of the ore, subject to feasibility study and availability of funding.

Prospect and Outlook

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, creates 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 2010, 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 2010.

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 and Chief Executive Officer

Hong Kong, 27 August 2010

As at the date of this announcement, the Board comprises three executive directors, namely Mr. Lau Siu Ying, Mr. Luo Xi Zhi and Mr. Wang Yu; two non-executive directors, namely Mr. Fung Oi Ip, Alfonso and Mr. Lo Wing Yat and three independent non-executive directors, namely Mr. Chang Wing Seng, Victor, Mr. Wong Lit Chor, Alexis and Mr. Chen Yi Gang.

** For identification purpose only*