China Fortune Holdings Limited

中國長遠控股有限公司*

(Incorporated in Bermuda with limited liability, carrying on business in H.K. as CFH Limited)

(Stock Code: 110)

("the Company")

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST DECEMBER, 2010

The board of directors (the "Board") of China Fortune Holdings Limited (the "Company") is pleased to announce the audited results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31st December, 2010, together with the comparative figures as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	**2010** **HK$'000**	2009 *HK$'000*
Continuing operations			
Revenue	*2*	**2,544,120**	2,067,961
Cost of sales		**(2,479,356)**	(2,030,657)
Gross profit		**64,764**	37,304
Other income		**4,668**	6,201
Other gains and losses		**9,280**	(170,998)
Selling and distribution costs		**(22,450)**	(20,235)
Administrative expenses		**(27,308)**	(20,259)
Finance costs	*3*	**(11,658)**	(2,282)
Loss on disposal of subsidiaries		**–**	(4,974)
Gain on disposal of an associate		**–**	1,437
Share of results of associates		**444**	732
Profit/(loss) before income tax		**17,740**	(173,074)
Income tax expense	*4*	**(2,104)**	(26)
Profit/(loss) for the year from continuing operations	*5*	**15,636**	(173,100)
Profit for the year from discontinued operations		**–**	671
Profit/(loss) for the year		**15,636**	(172,429)

* *For identification purpose only*

	Notes	2010 HK$'000	2009 HK$'000
Other comprehensive income			
Exchange differences arising on translation		**20,931**	(1,476)
Share of translation reserves of associates		**–**	3
Translation reserves released upon disposal of an associate		**–**	(133)
Translation reserves released upon deregistration of a subsidiary		**(3,941)**	–
		16,990	(1,606)
Total comprehensive income for the year		**32,626**	(174,035)
Profit/(loss) for the year attributable to:			
Owners of the Company		**14,875**	(171,983)
Non-controlling interests		**761**	(446)
		15,636	(172,429)
Total comprehensive income attributable to:			
Owners of the Company		**24,989**	(173,542)
Non-controlling interests		**7,637**	(493)
		32,626	(174,035)
From continuing and discontinued operations			
Earnings/(losses) per share – basic and diluted	*6*	**1.82 cents**	(45.32) cents
From continuing operations			
Earnings/(losses) per share – basic and diluted	*6*	**1.82 cents**	(45.49) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	2010 HK$'000	2009 HK$'000
Non-Current Assets			
Plant and equipment		**8,680**	6,701
Mining right		**433,683**	415,840
Goodwill		**2,910**	2,910
Investment in an associate		**4,463**	4,919
Available-for-sale investment		**69**	69
Club memberships		**1,376**	1,358
		451,181	431,797
Current Assets			
Inventories		**187,155**	164,774
Trade and other receivables	*7*	**173,150**	85,849
Bills receivable	*7*	**7,056**	–
Other assets		**–**	1,469
Amounts due from related parties		**3,172**	5,721
Taxation recoverable		**–**	2,063
Bank balances and cash		**45,667**	7,264
		416,200	267,140
Current Liabilities			
Trade and other payables	*8*	**203,873**	89,797
Amounts due to related parties		**8,770**	25,781
Taxation payables		**6,782**	4,579
Bank and other borrowings		**50,030**	14,010
Promissory notes		**45,796**	7,549
		315,251	141,716
Net Current Assets		**100,949**	125,424
Total Assets less Current Liabilities		**552,130**	557,221

	Notes	2010 HK$'000	2009 HK$'000
Capital and Reserves			
Share capital		**82,166**	67,881
Reserves		**201,445**	90,373
Equity attributable to owners of the Company		**283,611**	158,254
Non-controlling interests		**162,695**	155,058
		446,306	313,312
Non-current Liabilities			
Deferred tax liabilities		**105,824**	101,473
Convertible loan notes		**–**	100,306
Promissory notes		**–**	42,130
		105,824	243,909
		552,130	557,221

Notes:

1. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Adoption of new and revised HKFRSs – effective on 1st January, 2010

HKFRSs (Amendments)	Improvements to HKFRSs
Amendments to HKAS 39	Eligible Hedged Items
Amendments to HKFRS 2	Share-based Payment – Group Cash-settled Share-based Payment Transactions
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC) – Interpretation 17	Distributions of Non-cash Assets to Owners
HK Interpretation 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Except as explained below, the adoption of these new and revised HKFRSs has no significant impact on Group's financial statements.

HKFRS 3 (Revised) – Business Combinations and HKAS 27(Revised) – Consolidated and Separate Financial Statements

The revised accounting policies are effective prospectively for business combinations effected in financial periods beginning on or after 1st July, 2009. Changes in HKFRS 3 include the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes impact the amount of goodwill and the results in the period that an acquisition occurs and future results. The adoption of revised HKFRS 3 has had no impact to the financial statements as there has been no business combination transaction during the year.

The revised HKAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners, and accordingly, such transactions are recognised within equity. When control is lost and any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The adoption of revised HKAS 27 has had no impact in the current year.

HK Interpretation 5 – Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

The Interpretation is a clarification of an existing standard, HKAS 1 Presentation of Financial Statements. It sets out the conclusion reached by the HKICPA that a term loan which contains a clause which gives the lender the unconditional right to demand repayment at any time shall be classified as a current liability in accordance with paragraph 69(d) of HKAS 1 irrespective of the probability that the lender will invoke the clause without cause. The adoption of HK Interpretation 5 has had no impact on the financial statements in current and prior years.

The following new and revised HKFRSs, potentially relevant to the Group's operations, have been issued, but are not yet effective and have not been early adopted by the Group:

		Effective date
HKFRSs (Amendments)	Improvements to HKFRSs 2010	(i) & (ii)
HK(IFRIC) – Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments	(i)
HKAS 24 (Revised)	Related Party Disclosures	(ii)
Amendments to HKFRS 7	Disclosure – Transfers of Financial Assets	(iii)
HKFRS 9	Financial Instruments	(iv)

Effective date:

(i) *Annual periods beginning on or after 1st July, 2010*
(ii) *Annual periods beginning on or after 1st January, 2011*
(iii) *Annual periods beginning on or after 1st July, 2011*
(iv) *Annual periods beginning on or after 1st January, 2013*

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government.

The amendments to HKFRS 7 improve the derecognition disclosure requirements for transfer transactions of financial assets and allow users of financial statements to better understand the possible effects of any risks that may remain with the entity on transferred assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

The Group is in the process of making an assessment of the potential impact of these new and revised HKFRSs and the directors so far concluded that the application of these new and revised HKFRSs will have no material impact on the Group's financial statements.

2. SEGMENT INFORMATION

(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 year ended 31st December, 2010, 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

Inter-segment transactions are priced with reference to prices charged to external parties for similar order. 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, segments' assets and segments' liabilities that are used by the CODM for assessment of segment performance.

For the year ended 31st December, 2010

	Mobile phone business *HK$'000*	Mining business *HK$'000*	Total *HK$'000*
Reportable segment revenue from external customers	**2,528,868**	**15,252**	**2,544,120**
Reportable segment profit	**27,710**	**6,150**	**33,860**
Loss on write-off of plant and equipment	**2**	**–**	**2**
Depreciation and amortisation	**1,058**	**1,156**	**2,214**
Allowance for trade and other receivables	**–**	**2,852**	**2,852**
Write down of inventories	**1,395**	**–**	**1,395**
Income tax expense	**251**	**1,986**	**2,237**
Reportable segment assets	**407,642**	**452,394**	**860,036**
Additions to non-current assets	**3,429**	**139**	**3,568**
Reportable segment liabilities	**(225,115)**	**(133,752)**	**(358,867)**

	2010
	HK$'000
Revenue	
Reportable segment revenue and consolidated revenue	**2,544,120**
Profit/(loss) before income tax (include continuing and discontinued operations)	
Reportable segment profit	**33,860**
Interest income	**317**
Miscellaneous income	**4,462**
Corporate expenses	**(9,685)**
Share of results of associates	**444**
Finance costs	**(11,658)**
Consolidated profit/(loss) before income tax	**17,740**
Assets	
Reportable segment assets	**860,036**
Unallocated corporate assets	
– Investment in an associate	**4,463**
– Others	**2,882**
Consolidated total assets	**867,381**
Liabilities	
Reportable segment liabilities	**358,867**
Unallocated corporate liabilities	
– Promissory notes	**45,796**
– Others	**16,412**
Consolidated total liabilities	**421,075**

During the year ended 31st December, 2009, the Group was engaged in the distribution and trading of mobile phones and related accessories in both the PRC (excluding Hong Kong) and Hong Kong, which is known as "Mobile phone business" segment. The CODM used to measure and assess the Group's performance and allocate resources based on the contribution by these two geographical markets. In August 2009, the Group discontinued its operations in Hong Kong upon disposal of its subsidiary, the Synergy sub-group.

On 23rd December, 2009, the Group completed its acquisition of a 50.8% equity interest in a mining company established in the PRC and henceforth became engaged in the mining business. However, no active operation took place between the date of acquisition and the end of the prior reporting period. Therefore, no segment information relevant to the mining segment is presented in 2009.

For the year ended 31st December, 2009

	Mobile phone business			
	Continuing	Discontinued		
	The PRC	Hong Kong	Elimination	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue from external customers	2,067,961	56,276	–	2,124,237
Inter-segment revenue	32,916	491	(33,407)	–
Reportable segment revenue	2,100,877	56,767	(33,407)	2,124,237
Reportable segment profit	27,068	820	–	27,888
Allowance for trade and other receivables	994	–	–	994
Write down of inventories	8,249	–	–	8,249
Depreciation of plant and equipment	1,253	25	–	1,278
Gain/(loss) on disposal of plant and equipment	136	(9)	–	127

	2009
	HK$'000
Revenue	
Reportable segment revenue and consolidated revenue	2,124,237
Profit/(loss) before income tax (include continuing and discontinued operations)	
Reportable segment profit	27,888
Segment profit from discontinued operations	(772)
Interest income	452
Miscellaneous income	972
Impairment loss recognised in respect of available-for-sale investment	(217)
Impairment loss recognised in respect of goodwill	(184,340)
Fair value loss on derivative financial instrument	(326)
Corporate expenses	(11,596)
Loss on disposal of subsidiaries	(4,974)
Gain on disposal of an associate	1,437
Share of results of associates	732
Finance costs	(2,330)
Consolidated profit/(loss) before income tax	(173,074)

(b) Geographical information

The Group's operations are located in the PRC and Hong Kong. The operation in Hong Kong was discontinued during 2009.

The Group's revenue from external customers and information about its non-current assets by geographical location of the assets are detailed below:

	Revenue from external customers		**Non-current assets**	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
PRC (continuing operations)	**2,544,120**	2,067,961	**451,112**	431,728
Hong Kong (discontinued operations)	**–**	56,276	**–**	–
	2,544,120	2,124,237	**451,112**	431,728

Note: Non-current assets excluded those relating to available-for-sale investment.

(c) Information about major customer

During the year ended 31st December, 2010, there was no customer with whom transactions have exceeded 10% of the Group's revenue.

During the year ended 31st December, 2009, there was one single customer with whom transactions have exceeded 10% of the Group's revenue, amounted to approximately HK$330,507,000.

3. FINANCE COSTS

	2010	2009
	HK$'000	*HK$'000*
Continuing operations		
Interests on:		
Bank and other borrowings wholly repayable within five years	**6,141**	1,107
Promissory notes	**4,263**	105
Bills discounting	**1,192**	382
Convertible loan notes	**62**	187
Earnest money received	**–**	501
	11,658	2,282

4. INCOME TAX EXPENSE

	2010	2009
	HK$'000	*HK$'000*
Continuing operations		
The amount of income tax charge in the consolidated statement of comprehensive income represents:		
Current tax:		
PRC Enterprise Income Tax ("EIT")	**2,237**	26
Deferred tax	**(133)**	–
Income tax charge	**2,104**	26

Fortune (Shanghai) International Trading Co., Ltd ("Fortune Shanghai"), 上海長遠忻科貿易有限公司 ("Shanghai Telefortune") and 上海遠嘉國際貿易有限公司 ("Shanghai Yuanjia") were established in Shanghai Waigaoqiao Free Trade Zone, the PRC; and 珠海市雷鳴達通訊設備有限公司 ("Zhuhai Reminda") was established in Zhuhai Special Economic Zone, the PRC. Accordingly, for the year ended 31st December, 2010, these PRC subsidiaries were entitled to a preferential EIT rate of 22% (2009: 20%). 黃石鍶發礦業有限公司 ("Sifa Mining") was established in the PRC and subject to the EIT rate of 25% (2009: 25%).

PRC EIT represents tax charge on the assessable profits of Zhuhai Reminda and Sifa Mining.

The income tax charge for the year can be reconciled to the profit/(loss) before income tax per the consolidated statement of comprehensive income as follows:

	2010	2009
	HK$'000	*HK$'000*
Profit/(loss) before income tax from continuing operations	**17,740**	(173,074)
Tax charge/(credit) at the domestic income tax rate of 22% (2009: 20%) *(Note)*	**3,903**	(34,615)
Tax effect of share of results of associates	**(98)**	(147)
Tax effect of expenses not deductible for tax purpose	**4,428**	39,912
Tax effect of income not taxable for tax purpose	**(1,757)**	(1,164)
Reversal of tax effect of deductible temporary differences previously recognised	**–**	(2,983)
Tax effect of deductible temporary differences not recognised	**–**	199
Tax effect of tax losses not recognised	**1,539**	1,572
Utilisation of tax loss previously not recognised	**(6,016)**	(2,748)
Effect of different tax rates of group entities operating in other jurisdictions	**238**	–
Tax expense for the year	**2,237**	26

At the end of reporting period, the Group had unused tax losses of approximately HK$231,727,000 (2009: HK$260,852,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately HK$132,262,000 (2009: HK$168,098,000) that may be carried forward for a period of five years from their respective year of origination. Other losses may be carried forward indefinitely.

At the end of reporting period, the Group also had deductible temporary differences of approximately HK$69,612,000 (2009: HK$69,811,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Note: The domestic income tax rate represents the preferential PRC EIT rate where the Group's operations are substantially based.

5. PROFIT/(LOSS) FOR THE YEAR

	2010	2009
	HK$'000	*HK$'000*
Continuing operations		
Profit/(loss) for the year has been arrived at after charging:		
Auditor's remuneration	**821**	1,357
Cost of inventories recognised as expense (including write down of inventories of HK$1,395,000 (2009: HK$8,249,000))	**2,479,356**	2,030,657
Depreciation of plant and equipment	**1,831**	1,253
Staff costs		
– directors' emoluments	**3,658**	2,385
– other staff costs	**11,606**	11,205
– retirement benefit scheme contribution (excluding directors)	**2,390**	580
	17,654	14,170
and after crediting:		
Service income from provision of logistics and promotion services	**3,118**	2,458
Interest income	**317**	452
Government grants	**–**	664

6. EARNINGS/(LOSSES) PER SHARE

For continuing and discontinued operations

The calculation of earnings/(losses) per share for the year is based on the profit for the year attributable to owners of the Company of HK$14,875,000 (2009: loss for the year of HK$171,983,000) and the weighted average number of 820,489,274 shares in issue during the year (2009: 379,497,000 shares in issue).

The computation of diluted earnings/(losses) per share does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price for shares for both 2010 and 2009.

The convertible loan notes had an anti-dilutive effect on the basic earnings/(losses) per share of the Group from continuing and discontinued operations for the years ended 31st December, 2010 and 2009. Accordingly, the effect of the convertible loan notes was not included in the calculation of diluted earnings/(losses) per share from continuing and discontinued operations for the years ended 31st December, 2010 and 2009.

For continuing operations

The calculation of earnings/(losses) per share for the year is based on the profit for the year from contributing operations attributable to owners of the Company of HK$14,875,000 (2009: loss for the year of HK$172,654,000) and the weighted average number of 820,489,274 shares in issue during the year (2009: 379,497,000 shares in issue).

The computation of diluted earnings/(losses) per share does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price for shares for both 2010 and 2009.

The convertible loan notes had an anti-dilutive effect on the basic earnings/(losses) per share of the Group from continuing operations for the years ended 31st December, 2010 and 2009. Accordingly, the effect of the convertible loan notes was not included in the calculation of diluted earnings/(losses) per share from continuing operations for the years ended 31st December, 2010 and 2009.

7. TRADE, BILLS AND OTHER RECEIVABLES

	2010	2009
	HK$'000	*HK$'000*
Trade receivables	**19,583**	24,922
Less: accumulated allowance	**(14,713)**	(15,501)
	4,870	9,421
Value-added-tax receivables	**6,238**	10,620
Rebates receivable	**66,126**	50,020
Prepayments to suppliers	**71,332**	2,982
Other receivables and deposits	**27,589**	25,432
Less: accumulated allowance	**(3,005)**	(12,626)
Trade and other receivables	**173,150**	85,849
Bills receivable	**7,056**	–
	180,206	85,849

The Group allows its 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:

	2010	2009
	HK$'000	*HK$'000*
0 to 30 days	**3,320**	8,555
31 to 90 days	**1,423**	486
Over 90 days	**127**	380
	4,870	9,421

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines its credit limits. Limits attributed to customers are reviewed periodically. Majority of the trade receivables that are neither past due nor impaired have no default payment history and good credit rating under the Group's internal credit assessment.

8. 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:

	2010	2009
	HK$'000	*HK$'000*
Trade payables:		
0 to 30 days	**3,704**	3,539
31 to 90 days	**159**	99
Over 90 days	**599**	2,163
	4,462	5,801
Rebates payable	**116,190**	47,983
Prepayments from customers	**62,379**	26,152
Other payables and accruals	**20,842**	9,861
	203,873	89,797

9. RECLASSIFICATION OF COMPARATIVES

Certain comparative amounts of sales and purchases rebates have been reclassified among revenue, cost of sales and selling and distribution costs presented in the consolidated statement of comprehensive income in order to conform with current year's presentation.

FINAL DIVIDEND

No dividend has been proposed for the year ended 31st December, 2010 and 2009.

REVIEW AND OUTLOOK

Financial Review

The Group made a net profit of HK$15.6 million in this year, as compared with a net loss of HK$172.4 million in last year, which was owing to a substantial impairment loss amount to HK$184.3 million in respect of a goodwill arising from the acquisition of a mining company in the People's Republic of China ("PRC") ("Sifa Mining"). No such one-off impairment on goodwill was recognised in this year. If without concerning this one-off non-cash impairment loss in last year, the operational performance of the Group was slightly improved in 2010 as compared to 2009, which was mainly contributed by the fulfillment distribution business for Nokia Stores in the PRC which is the core business of the Group.

As part of the agreement to the acquisition of 50.8% interest of Sifa Mining as completed in 2009 (the "Acquisition"), Mr. Lau Siu Ying ("Mr. Lau"), the Chairman of the Company and the vendor of the Acquisition has undertaken to the Group that the audited profit before tax of Sifa Mining shall not be less than RMB72 million for the first twelve months following the completion date of the Acquisition (the "Profit Guarantee"). When Sifa Mining made a profit before tax of less than RMB72 million, the compensation for the shortfall of Profit Guarantee payable by Mr. Lau to the Group shall be equivalent to 50.8% of the shortfall amount of the audited profit before tax compared to RMB72 million, net of tax effect. This one-off compensation for shortfall payable by Mr. Lau to the Group shall be set off by the first tranche of the promissory notes issued to Mr. Lau as part of the consideration for the Acquisition.

The audited profit before tax of Sifa Mining for the period from 23rd December, 2009 to 22nd December, 2010 fell short of a sum of RMB71.7 million. Accordingly, the principal sum of the first tranche promissory notes was adjusted from HK$40 million to HK$8 million, which has been properly taken into account in the audited financial statement of the Group as at 31st December, 2010.

The Group recorded a consolidated revenue during this year of HK$2,544.1 million when compared to the last year of HK$2,068.0 million. This was mainly resulted from an increase in revenue from the fulfillment distribution business for Nokia Stores in this year which could offset the drop in revenue contribution to the Group from the disposed distribution business in Hong Kong in 2009.

The gross profit amounted to HK$64.8 million, an increase when compared to the last year of HK$37.3 million. The gross margin percentage during the year was 2.5% which was higher than the last year of 1.8% due to the improvement in the fulfillment distribution business in this year.

Included in the other gains and losses in this year was a one-off write back of HK$7.9 million from an amount due to a minority shareholder of Sifa Mining. The post-tax net effect of this write back in the consolidated statement of comprehensive income was HK$5.9 million.

The selling and distribution costs amounted to HK$22.5 million when compared to the last year of HK$20.2 million as the overall revenue achieved during the year was comparably higher than the last year in the fulfillment distribution business for Nokia Stores. The administrative expenses amounted to HK$27.3 million, an increase when compared to the last year of HK$20.3 million mainly due to higher depreciation charges and directors' remuneration incurred.

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$14.9 million in 2009. No such gain has been made in the year.

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 last year, 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. For disposing this Hong Kong distribution business, the Group incurred a loss of HK$5.1 million. The Group disposed one of the associates named Intelligence Tech Limited in 2009 which achieved an one-off gain on disposal of HK$1.4 million.

As far as the mobile phone retail chain business in Zhuhai was concerned, the revenue achieved during the year amounted to HK$40.9 million, increased by 33% as compared with last year of HK$30.7 million. The Group could share a profit from it during this year. The Group shared net gains of HK$0.4 million from the results of an associate during the year as compared to HK$0.7 million from two associates in last year.

The finance costs increased from HK$2.3 million in last year to HK$11.7 million in this year due to the increase in the level of bank and other borrowings and a full year charge of imputed interest on promissory notes.

As a result of the above, the Group reported a net profit of HK$15.6 million during the year when compared to the net loss of HK$172.4 million in last year.

The net asset value of the Group as at 31st December, 2010 amounted to HK$283.6 million or HK$0.35 per share when compared to HK$158.3 million or HK$0.23 per share as at 31st December, 2009. The basic earnings per share was HK$0.02 as compared to losses per share of HK$0.45 in last year.

As at 31st December, 2010, the Group's aggregate bank and other borrowings amounted to HK$50 million when compared to HK$14 million as at 31st December, 2009. The gearing ratio of the Group, defined as the ratio of the total long term liabilities to the shareholder's equity, was 0.37 as compared to 1.54 as at 31st December, 2009.

The total bank deposits and cash balances amounted to HK$45.7 million as at 31st December, 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 year, there was no material change in the funding and treasury policy of the Group. The Group considers there is no material potential currency exposure as the majority of its revenue and expenses are derived and incurred all in Renminbi in the PRC. It is the treasury policy of the Group to manage its foreign currency exposure whenever its financial impact is material to the Group.

The inventories of the Group as at 31st December, 2010 amounted to HK$187.2 million, when compared to HK$164.8 million as at 31st December, 2009, mainly since more inventories from the fulfillment distribution business for Nokia Stores as driven by a higher turnover volume in the year. The inventory turnover period was 26 days in this year when compared to 29 days of last year. The Group will continue to apply strict policy in inventory control in the future.

The amount of trade and other receivables as at 31st December, 2010 was HK$173.2 million, when compared to HK$85.8 million as at 31st December, 2009, mainly comprised receivables from the fulfillment distribution business for Nokia Stores. 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.

Upon completion of the acquisition of Sifa Mining in 2009, the Company issued convertible loan notes, promissory notes and approximately 306 million new shares as part of the consideration in the Acquisition. On 4th 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 holders of the said convertible loan notes.

As at 31st December, 2010, the Group had in total 234 employees as compared to 243 employees as at 31st 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 year. 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 859 million subscribers to mobile phone services in the PRC as at the end of 2010, equivalent to a penetration rate of 64.4 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 year. On 11th February, 2011, Nokia and Microsoft announced their partnership plan to combine assets and develop innovative mobile products on an unprecedented scale. We believe this move of Nokia can further enhance its competitiveness in the industry. On the other hand, the businesses of the associate and the subsidiary engaging in the mobile phone retail chain in Zhuhai of the Group remained stable in the competitive market. The mining business acquired in December 2009 has contributed revenue and profit to the Group in the year. The exploitation on existing phase was completed. The mining business is now moving to a next phase in development of another mining site exploitation system and then further exploitation is expected. 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 and 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.

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

During the year ended 31st December, 2010, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

The Board is committed to maintaining high standards of corporate governance with a view to assuring the integrity, transparency and quality of disclosure to protect the interests of all shareholders. The Company has applied the principles and complied with all the applicable code provisions of the Code on Corporate Governance Practices (the "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") for the year ended 31st December, 2010, except that there is no separate of the role of Chairman and Chief Executive Officer and all Non-executive Directors of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws of the Company and the Chairman of the Board of the Company does not need to retire by rotation. The Board will continuously review and improve the corporate governance practices and standards of the Company to ensure the business activities and decision making processes are regulated in a proper and prudent manner.

AUDIT COMMITTEE OF THE BOARD

The audit committee of the Board comprises two Independent Non-executive Directors, Mr. Chang Wing Seng, Victor and Mr. Wong Lit Chor, Alexis and one Non-executive Director, Mr. Fung Oi Ip, Alfonso. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group and to provide advice and comments to the Board. The audit committee has reviewed and approved this announcement.

PUBLICATION OF THE RESULTS ON THE STOCK EXCHANGE'S WEBSITE

All information required by paragraph 45(1) to 45(8) of Appendix 16 to the Listing Rules will be published on the website of the Stock Exchange and the Company's website http://www.fortunetele.com.

SCOPE OF WORK OF BDO LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31st December, 2010 as set out in this preliminary announcement have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagement issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on this preliminary announcement.

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

Hong Kong, 30th March, 2011

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