



長遠電信網絡集團有限公司
FORTUNE TELECOM HOLDINGS LIMITED

(於百慕達註冊成立之有限公司 Incorporated in Bermuda with limited liability)
(股份代號 Stock Code : 110)



INTERIM REPORT
2007 中期報告

CORPORATE INFORMATION

Board of Directors

Chairman

Lau Siu Ying

Executive Director

Luo Xi Zhi

Non-Executive Directors

Fung Oi Ip, Alfonso

Lo Wing Yat

Independent Non-Executive Directors

Chang Wing Seng, Victor

Wong Lit Chor, Alexis

Chen Yi Gang

Company Secretary

Fok Wai Ming, Eddie

Audit Committee

Chang Wing Seng, Victor

Wong Lit Chor, Alexis

Fung Oi Ip, Alfonso

Principal Share Registrar and Transfer Office

The Bank of Bermuda Limited

Bank of Bermuda Building

6 Front Street, Hamilton HM11

Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Tricor Abacus Limited

26/F., Tesbury Centre

28 Queen's Road East

Wanchai, Hong Kong

Registered Office

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

Hong Kong Head Office

Room 1505-7, Tower A

Regent Centre, 63 Wo Yi Hop Road

Kwai Chung, Hong Kong

China Head Office

Room C, E and F, 8/F., East Tower Shanghai

Hi-Tech King World

666, Beijing East Road

Huang Pu District

Shanghai, PRC

Shanghai Office

Room 328, Xin Mao Lou

2 Tai Zhong Nan Lu

Waigaoqiao Free Trade Zone

Shanghai, PRC

Auditor

Deloitte Touche Tohmatsu

Legal Advisors

Conyers Dill & Pearman

Principal Bankers

CITIC Ka Wah Bank

Hang Seng Bank

China Merchants Bank

Xiamen International Bank

Corporate Websites

www.fortunetele.com

www.fortunetele.com.cn

www.synergy-asia.com.hk

Stock Code

110

HIGHLIGHTS

- Turnover for the six months ended 30 June 2007 was approximately HK\$1,587 million, representing an increase of approximately 30% as compared with that of the corresponding period in the previous year.
- The Group distributed a total of 1.4 million handsets during the period as compared to 1.3 million units in the previous corresponding period.
- Gross margin decreased from 4.2% to -0.2%.
- Unaudited net loss after taxation for the six months ended 30 June 2007 was approximately HK\$84.8 million.
- The deficit per share was HK 27.1 cents for the six months ended 30 June 2007.

The board of directors (the "Board") of Fortune Telecom Holdings Limited (the "Company") hereby presents the unaudited consolidated interim financial results and the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2007 together with the comparative figures set out below. These condensed consolidated interim financial statements have not been audited, but have been prepared in accordance with the Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and reviewed by the audit committee (the "Audit Committee") of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	1.1.2007 to 30.6.2007 (Unaudited) HK\$'000	1.1.2006 to 30.6.2006 (Unaudited) HK\$'000
Revenue	3	1,587,023	1,217,168
Cost of sales		(1,590,089)	(1,165,639)
Gross (loss)/profit		(3,066)	51,529
Other income		4,509	5,561
Distribution costs		(41,820)	(15,589)
Administrative expenses		(31,704)	(7,794)
Gain on disposal of trading investments		1,375	–
Finance costs		(13,953)	(11,010)
Share of result of an associate		(473)	–
(Loss)/profit before taxation	4	(85,132)	22,697
Income tax credit/(expense)	5	340	(4,963)
(Loss)/profit for the period		(84,792)	17,734
Attributable to:			
Equity holders of the parent		(84,792)	17,734
Minority interests		–	–
		(84,792)	17,734
Dividend	6	3,151	3,021
(Deficits)/earnings per share – Basic	7	(27.1 cents)	5.9 cents

CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30 Jun 2007 (Unaudited) HK\$'000	As at 31 Dec 2006 (Audited) HK\$'000
	<i>Notes</i>		
Non-current assets			
Plant and equipment		1,196	886
Investment property		9,560	9,560
Goodwill		4,910	4,910
Interest in an associate	8	13,960	–
Available-for-sale investment		918	918
Club membership		600	600
Deferred tax assets		3,198	2,697
		34,342	19,571
Current assets			
Inventories		231,685	600,871
Trade and other receivables	9	356,380	333,346
Bills receivable		3,796	15,845
Taxation recoverable		312	312
Held for trading investments		–	12,064
Pledged bank deposits		164,304	150,567
Bank balances and cash		159,282	50,448
		915,759	1,163,453
Current liabilities			
Trade and other payables	10	49,265	108,453
Dividend payables		3,151	–
Taxation payables		827	1,737
Bank borrowings	11	500,401	675,608
Bank overdrafts – secured		–	1,058
		553,644	786,856
Net current assets		362,115	376,597
		396,457	396,168
Capital and reserves			
Share capital	12	35,510	30,210
Reserves		360,189	365,200
Equity attributable to equity holders of the parent		395,699	395,410
Share option reserve of a subsidiary		758	758
		396,457	396,168

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2007

	Attributable to equity holders of the parent								Share option reserve of a subsidiary	
	Share capital HK\$'000	Share premium HK\$'000	Share option reserve HK\$'000	Special reserve HK\$'000	Translation reserve HK\$'000	Statutory funds HK\$'000	Accumulated profits HK\$'000	Total HK\$'000	HK\$'000	Total HK\$'000
At 1 Jan 2006	30,210	103,275	–	2,481	4,553	26,130	186,507	353,156	758	353,914
Profit for the period	–	–	–	–	–	–	17,734	17,734	–	17,734
Dividend payable	–	–	–	–	–	–	(3,021)	(3,021)	–	(3,021)
At 30 Jun 2006	30,210	103,275	–	2,481	4,553	26,130	201,220	367,869	758	368,627
Exchange differences arising on translation of foreign operations	–	–	–	–	13,936	–	–	13,936	–	13,936
Profit for the period	–	–	–	–	–	–	13,605	13,605	–	13,605
At 31 Dec 2006	30,210	103,275	–	2,481	18,489	26,130	214,825	395,410	758	396,168
At 1 Jan 2007	30,210	103,275	–	2,481	18,489	26,130	214,825	395,410	758	396,168
Allotment of new shares	4,000	47,581	–	–	–	–	–	51,581	–	51,581
Share issued upon exercise of share options	400	4,760	–	–	–	–	–	5,160	–	5,160
Recognition of equity-settled share based payment	–	–	17,262	–	–	–	–	17,262	–	17,262
Transfer of share option reserve on exercise of share options	–	2,443	(2,443)	–	–	–	–	–	–	–
Acquisition of 50% interest in an associate	900	13,329	–	–	–	–	–	14,229	–	14,229
Loss for the period	–	–	–	–	–	–	(84,792)	(84,792)	–	(84,792)
Dividend payable	–	–	–	–	–	–	(3,151)	(3,151)	–	(3,151)
At 30 Jun 2007	35,510	171,388	14,819	2,481	18,489	26,130	126,882	395,699	758	396,457

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	1.1.2007 to 30.6.2007 (Unaudited) HK\$'000	1.1.2006 to 30.6.2006 (Unaudited) HK\$'000
Net cash from (used in) operating activities	252,669	(342,032)
Net cash from investing activities	46,383	2,291
Net cash (used in) from financing activities	(189,160)	226,357
Net increase (decrease) in cash and cash equivalents	109,892	(113,384)
Cash and cash equivalents at beginning of the period	49,390	205,906
Cash and cash equivalents at end of the period	159,282	92,522
Represented by:		
Bank balances and cash	159,282	92,522
Bank overdraft	—	—
	159,282	92,522

Notes:

1. Basis of preparation

The unaudited condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix I 6 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. Principal accounting policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment property, which is measured at a revalued amount.

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 2006.

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective in the current period. The adoption of these new HKFRSs did not have any material impact on how the financial statements of the Group are prepared and presented for the current or prior accounting period.

Potential impact of new standards not yet effective

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The Group is still not in the position to reasonably estimate the impact that may arise from the application of these new standards, amendments or interpretations.

HKAS 23 (Revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions ²
HK(IFRIC)-Int 12	Service Concession Arrangements ³

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

² Effective for annual periods beginning on or after 1 March 2007.

³ Effective for annual periods beginning on or after 1 January 2008.

3. Segment information

For the six months ended 30 June 2007 and 30 June 2006, substantially all revenue and contribution to profit/loss from operations of the Group were derived from the distribution and trading of mobile phones. In addition, no geographical market analysis is provided as substantially all revenue and contribution to profit/loss from operations of the Group were derived from the PRC (including Hong Kong) and substantially all the assets are located in the PRC (including Hong Kong).

4. Loss/profit before taxation

	1.1.2007 to 30.6.2007 HK\$'000	1.1.2006 to 30.6.2006 HK\$'000
Loss/profit before taxation has been arrived at after charging:		
Auditor's remuneration	590	500
Depreciation on owned assets	247	193
Staff costs (including equity-settled share based payment expense: HK\$17,262,000 (2006: Nil))	45,082	15,787

5. Income tax (credit)/expense

	1.1.2007 to 30.6.2007 HK\$'000	1.1.2006 to 30.6.2006 HK\$'000
The charge comprises:		
– Hong Kong Profits Tax	–	–
– PRC Enterprise Income Tax	161	4,945
	161	4,945
Deferred tax	(501)	18
	(340)	4,963

Hong Kong Profits Tax has not been provided for the period as the companies within the Group had no estimated assessable profits in Hong Kong (2006: 17.5% of the estimated assessable profits).

PRC Enterprise Income Tax represents taxation charges 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 ("上海遠嘉"), established in Shanghai Waigaoqiao Free Trade Zone, the PRC. Fortune Shanghai and 上海遠嘉 are entitled to a preferential PRC Enterprise Income Tax rate of 15% which is granted to companies established in Shanghai Waigaoqiao Free Trade Zone.

6. Dividend

	1.1.2007 to 30.6.2007 HK\$'000	1.1.2006 to 30.6.2006 HK\$'000
The final dividend of HK 1 cent per share for the year ended 31 December 2006 (2006: final dividend of HK 1 cent per share for the year ended 31 December 2005)	3,151	3,021

The final dividend of HK 1 cent per share for the year ended 31 December 2006 (2006: HK 1 cent per share for the year ended 31 December 2005) has been approved by shareholders in annual general meeting and was subsequently paid on 26 July 2007.

7. Deficits/earnings per share

The calculation of the basic deficits/earnings per share is based on the Group's loss attributable to equity holders of the parent for the six months ended 30 June 2007 of HK\$84,792,000 (2006: profit of HK\$17,734,000) and on the weighted average number of 312,433,333 shares (2006: 302,100,000 shares) in issue during the period.

8. Interest in an associate

	As at 30 Jun 2007 HK\$'000	As at 31 Dec 2006 HK\$'000
Share of net assets (<i>Note</i>)	13,960	—

The Group's share of net assets of the associate represents the Group's cost of investment plus its share of post-acquisition results in the associate under the equity method of accounting, the Group's share of losses of the associate is restricted to the cost of investment.

9. Trade and other receivables

The Group allows credit period ranged from 30 to 90 days to some of its trade customers. The following is an aging analysis of the trade receivables (net of allowance):

	As at 30 Jun 2007 HK\$'000	As at 31 Dec 2006 HK\$'000
Trade receivables:		
– 0 to 30 days	67,675	118,757
– 31 to 90 days	36,406	46,060
– Over 90 days	22,591	6,174
	126,672	170,991
Value-added-tax receivables	23,438	66,920
Rebates receivables	112,361	62,359
Deposits and prepayments	93,909	33,076
	356,380	333,346

10. Trade and other payables

The following is an aging analysis of the trade payables:

	As at 30 Jun 2007 HK\$'000	As at 31 Dec 2006 HK\$'000
Trade payables:		
– 0 to 30 days	21,103	40,865
– 31 to 90 days	947	12,369
– Over 90 days	1,686	2,004
	23,736	55,238
Other payables	25,529	53,215
	49,265	108,453

11. Bank borrowings

	As at 30 Jun 2007 HK\$'000	As at 31 Dec 2006 HK\$'000
Bank borrowings comprise:		
Bank loans	440,401	505,608
Trust receipt loans	60,000	170,000
	500,401	675,608
Analysed as		
– secured	265,000	327,000
– unsecured	235,401	348,608
	500,401	675,608

All the above bank borrowings are repayable within one year.

12. Share capital

	Notes	No. of ordinary shares	Share capital HK\$'000
Ordinary shares of HK\$0.10 each			
Authorised:			
At 31 December 2006 and 30 June 2007		1,000,000,000	100,000
Issued and fully paid			
At 31 January 2006 and 31 December 2006		302,100,000	30,210
Allotment of new shares	<i>a</i>	9,000,000	900
Share placement	<i>b</i>	40,000,000	4,000
Exercise of share options	<i>c</i>	4,000,000	400
At 30 June 2007		355,100,000	35,510

Notes:

- (a) On 18 May 2007, 9,000,000 ordinary shares of HK\$0.10 each were issued on the basis of HK\$0.90 per ordinary share as a consideration for acquisition of 50% stake of DW Mobile Technology Limited.
- (b) On 27 June 2007, 40,000,000 ordinary shares of HK\$0.10 each were issued at a price of HK\$1.35 per ordinary share for a total cash consideration of HK\$54,000,000 by way of share placing.
- (c) Movement of share options granted to qualified persons under the share option schemes of the Company during the period are as follows:–

	Exercise price per share HK\$	Number of share options
At 31 January 2006 and 31 December 2006	–	–
Granted	1.29	28,262,000
Exercised	1.29	(4,000,000)
Lapsed/cancelled	–	–
At 30 June 2007	1.29	24,262,000

The fair value of the options granted is estimated at the date of grant using the Binomial Model, taking into account the terms and conditions upon which the options were granted.

The fair value of options granted during the six months ended 30 June 2007 was estimated on the date of grant using the following option properties:

Date of Grant	7 May 2007
Maturity Date	6 May 2012
Risk Free Rate as at Date of Grant	3.955% [*]
Stock Price as at Date of Grant	HK\$1.23
Subscription Price	HK\$1.29
Volatility	65.13% [#]
Dividend	HK\$0.031071 [▷]
Number of Share Options	28,262,000

^{*} Risk free rate represents the yields to maturity of respective Hong Kong Exchange Fund Note as at the valuation date.

[#] Volatility is the 5-year weekly annualized volatility of the underlying stock.

[▷] Future dividend payments assume to be HK\$0.031071 per year.

The Group recognized a total equity-settled share based payment expense of approximately HK\$17,262,000 during the six months ended 30 June 2007 (2006: Nil).

13. Subsequent events

- a. In June 2007, the Company entered into an agreement with TeleChoice International Limited ("TeleChoice"), an indirect subsidiary of Singapore Technologies Telemedia Pte Ltd, which is a wholly-owned subsidiary of Temasek Holdings (Private) Limited, to establish a joint venture to engage in the logistics and fulfillment business for Nokia-branded mobile handsets and accessories in the PRC. The agreement was completed on 4 September 2007 whereas TeleChoice injected HK\$50 million for 40% stake of the joint venture. At the same time, the Company paid HK\$1 million in cash and would pay the balance of HK\$24 million by instalments in cash and/or via transfer of stocks and assets into the joint venture for 60% equity.
- b. On 24 July 2007, the Group entered into an agreement (amended by a supplemental agreement on 27 July 2007) to acquire from Messrs Lau Siu Ying (the Chairman & CEO of the Company), Lau Hung Bing and Lau Kin Ying (both are brothers of Mr. Lau Siu Ying) approximately 40.8% equity interest in a mining company in the PRC (the "PRC Mining Company"). At the date of entering into the acquisition agreement, the PRC Mining Company had the right to conduct mining activities in a mining site which is located in Huangshi, southeastern Hubei. The PRC Mining Company has a general mining area of approximately 0.62 square kilometers and the mineral resources of the mining site include Celestite, Zinc and Lead.
- c. On 22 August 2007, Synergy Technologies (Asia) Limited ("Synergy Technologies"), an indirect wholly-owned subsidiary of the Company, has issued a Writ of Summons with general endorsement to claim for damages exceeding HK\$1 million against a Taiwanese company called Gigabyte Communications Inc. for breaches of distribution agreement and after-sale service agreement. Synergy Technologies is in the course of serving the said Summons on the defendant, which is established in Taiwan, out of jurisdiction of Hong Kong.
- d. In August 2007, the Group acquired 25% stake of Intelligence Tech Limited, a company providing software and hardware design, as well as total integrated solutions for mobile terminal technology, particularly focusing in the development of unique feature phone, smartphone and PDA phone targeting the PRC market in consideration of HK\$100,000 in cash and the Company's issuance and allotment of 6,000,000 shares of HK\$0.10 each in the Company.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2007 (2006: nil).

REVIEW AND OUTLOOK

Financial Review

Performance

Even though the total number of handsets sold reached approximately 1.4 million sets and the consolidated turnover rose to approximately HK\$1,587 million for the first six months ended 30 June 2007, representing an increase of 8% and 30% respectively as compared with those for the previous corresponding period, the gross margin has dropped significantly from 4.2% to -0.2%.

For Nokia mobile phones, the Group was transforming from national distribution to national fulfillment distribution. Under the new arrangement, the group provides fulfillment distribution to full range of Nokia models to all Nokia Stores in China. During the transition period, the Group suffered from tough price competition among the mobile phone models, namely N3220 and N7610, distributed through our national distribution mode as these models were running towards their product life ends.

For Samsung mobile phone national distribution, due to the repeated delay in the launch of 2 new Samsung models from 2nd quarter to 3rd quarter of the year, the Group did not deliver any new model resulting in losses of operating cost during the period. There was also unexpected quality problem in one of the Group's important Samsung model, namely D848, during the period. As a result, the group has suffered first time operation loss during the period.

More losses also came from stock clearance of some slow moving models like, N9300, E50, 788e and i858.

The distribution costs, however, increased by HK\$26.2 million or 168% to HK\$41.8 million for the six months ended 30 June 2007 mainly because of the increase in marketing expenses for promoting Samsung mobile phones and facilitating stock clearance of Nokia mobile phones. Due to a one-off equity-settled share based payment expense of HK\$17.3 million, the Company also recorded an increase in administrative expenses from HK\$7.8 million last period to HK\$31.7 million this period.

The finance costs increased from HK\$11.0 million last period to HK\$14.0 million this period mainly due to the increase in interest rates in the PRC. As a result, the Group reported a net loss of HK\$84.8 million in the period under review.

Treasury Policies, Liquidity and Charge on Assets

As at 30 June 2007, the Group's aggregate bank borrowings amounted to approximately HK\$500 million, of which approximately HK\$264 million was revolving working capital loans denominated in Renminbi arranged in place to provide flexibility to the Group in response to the changing monthly trading volume. The decrease in bank borrowing from HK\$676 million as at 31 December 2006 to HK\$500 million was mainly attributable to the stock clearance which released part of the working capital tied up in the inventory. As at 21 September 2007, the Groups further cut down the total bank borrowing to approximately HK\$240 million while the unsecured portion was below HK\$100 million.

The gearing ratio of the Group, calculated as non-current liabilities to equity attributable to equity holders of the Company, was zero as the Group did not have any long-term liability as at 30 June 2007. The total bank deposits and cash balances amounted to approximately HK\$324 million, of which HK\$164 million was pledged to banks as securities for Renminbi and Hong Kong dollars short-term revolving trade facilities. The interest rates for the loans are fixed on monthly, bi-monthly, quarterly or semi-annual basis.

During the period, there was no material change in the Group's funding and treasury policy. As over 90% of the Group's sales and purchases are denominated in Renminbi, the risk of currency exposure is considered minimal. The Group has not undertaken any financial instruments for currency or interest rate hedging purposes.

Working Capital

The amount of inventory as at 30 June 2007 of HK\$232 million represented approximately 26 days of stock turnover as compared to 75 days stock turnover based on the inventory level of HK\$601 million as at 31 December 2006. The decrease in inventory as well as stock turnover period was mainly attributable to stock clearance undertaken by the Group during the period.

The amount of trade receivable as at 30 June 2007 of HK\$127 million represented approximately 14 days of debtor's turnover as compared to 20 days as at 31 December 2006. The decrease in debtor's turnover period was mainly due to the tightened credit policy imposed during the period.

Employees

The Group had a total number of 1,195 employees as at 30 June 2007, which included 1,126 marketing representatives and non-contracted promoters in various cities in mainland China. The decrease in the number of marketing representatives and promoters during the period was resulted from the Group's transformation from Nokia national distributorship to Nokia fulfillment distributorship towards the end of 2nd quarter. During the period, the Group issued share options to the employees as an incentive under the share option scheme adopted on 14 January 2004.

Contingent Liabilities

As at 30 June 2007, the Group had no significant contingent liabilities.

OPERATION REVIEW

Market Overview

According to the statistics released by the Ministry of Information Industry ("MIIT"), the PRC, unlicensed mobile phones took up over 30% total market share in the year of 2006, and up to 25% in the first half year of 2007.

In the year of 2007, there are 2 major development characteristics in the mobile phone market in the PRC. (1) Brands: The market is dominated by just several major international brands. Nokia has already taken up about 40% market share of attention alone, while those local brand manufacturers, as a whole, can even not able to take up more than 11% market share of attention. (2) Models: The market is dominated by music-functioning mobile phones, which take up about 50% market share of attention, but the trend is moving towards higher-valued models like PDA phones and high-resolution camera phones.

While the market size in China kept growing to more than 500 million subscribers, most mobile phone manufacturers continue to expand their production capacity, resulting in supply over demand. As the handset market in China is reaching a mature stage especially in big cities, most manufacturers are trying to cut distribution layers by directly supplying to provincial distributors and leading retailers. Whereas major retailers prefer direct dealing with manufacturers. Leading vendors has evolved with multi-channel distribution model, namely national distribution, provincial distribution, direct to retail, direct to operator. The manufacturers will supply same models with similar pricing structure to different channel at the same time. It is always a challenge to maintain a stable pricing and control transshipment.

On the other hand, there are enormous business opportunities in the handset supply chain services due to following reasons: i.) leading vendors have established sizable own sales and marketing forces to cover different markets. ii.) thousands of retail and wholesales key account need an efficient operation to fulfill transactions. iii.) increasing operator handset subsidize activities creating opportunity for bridging the supply chain between vendors and widespread operator outlets. The integrated fulfillment distributors will provide 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, fulfillment distributors receive a contractual margin, as well as various rebates as their service income. This business model is more transparent, allowing buyer, supplier and fulfillment distributors to share common information. For example, buyers use our in-house developed B2B POS system for ordering, delivery tracking, shop information upload, rebate checking and credit application. Vendors can also access the same system to do the required information retrieval, rebate approval, etc.

Business Review

Mobile phone distribution was still the Group's core business during the period, which accounted for more than 90% of the Group's turnover. During the period, Nokia national distributorship accounted for approximately 45% of the Group's turnover while Nokia fulfillment distributorship constituted approximately 29% of the Group's turnover, with the latter growing at an increasing rate. Samsung national distributorship accounted for approximately 22% of the total Group's turnover in the six months ended 30 June 2007. Upon the completion of the transformation from national distributorship to fulfillment distributorship, it is expected that the latter will increase its contribution towards the total Group's sales, which would also bring the benefit of having more stable operation margins.

In view of the quality problem in one of the Samsung mobile phone models which caused the Group to incur losses in its operations, the Group is exploiting the possibility of obtaining compensation and/or damages from the manufacturer by amicable negotiation.

Prospect and Outlook

In February 2007, the Group contracted to acquire 51% stake in 珠海市雷鳴達通訊設備有限公司, a company which is principally and actively involved in the business of distribution and retails of mobile phones, telecom equipments, electronic products, office equipments and their repair services in Zhuhai area, in consideration of the issuance and allotment of 8,000,000 ordinary shares of HK\$0.10 each in the Company.

In April 2007, the Group purchased 50% shareholding in DW Mobile Technology Limited which is principally and actively involved in the business of outlook and content design, marketing and distribution of licensed, characterized and premium mobile phones in consideration of the issuance and allotment of 9,000,000 ordinary shares of HK\$0.10 each in the Company.

In June 2007, the Company entered into an agreement with TeleChoice International Limited ("TeleChoice"), an indirect subsidiary of Singapore Technologies Telemedia Pte Ltd, which is a wholly-owned subsidiary of Temasek Holdings (Private) Limited, to establish a joint venture to engage in the logistics and fulfillment business for Nokia-branded mobile handsets and accessories in the PRC. The agreement was completed on 4 September 2007 whereas TeleChoice injected HK\$50 million for 40% stake of the joint venture. At the same time, the Company paid HK\$1 million in cash and would pay the balance of HK\$24 million by instalments in cash and/or via transfer of stocks and assets into the joint venture for 60% equity.

On 24 July 2007, the Group entered into an agreement (amended by a supplemental agreement on 27 July 2007) to acquire from Messrs Lau Siu Ying (the Chairman & CEO of the Company), Lau Hung Bing and Lau Kin Ying (both are brothers of Mr. Lau Siu Ying) (collectively the "Vendors") approximately 40.8% equity interest in a mining company in the PRC (the "PRC Mining Company"). At the date of entering into the acquisition agreement, the PRC Mining Company had 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. The total consideration of HK\$408 million makes up of cash of HK\$40 million and 168 million ordinary shares of HK\$0.10 each in the Company.

In August 2007, the Group acquired 25% stake of Intelligence Tech Limited, a company providing software and hardware design, as well as total integrated solutions for mobile terminal technology, particularly focusing in the development of unique feature phone, smartphone and PDA phone targeting the PRC market in consideration of HK\$100,000 in cash and the Company's issuance and allotment of 6,000,000 shares of HK\$0.10 each in the Company.

To correctly reflect the new core business direction of the Group, on 4 September 2007, the Group announced its intention to change its name to "China Fortune Holdings Limited". The Group has also successfully secured a new domain name "www.chinafortune.com" which will be officially launched upon the approval of the new company name by the shareholders of the Company.

Other than the business investments as described above, the Group also intends to enhance the Company's value to the shareholders by further exploring the viability of diversifying its business into other areas, such as property development in the PRC. The Group is in the process of carrying out review and feasibility study on its core competence and resources deployment with the aim of successfully achieving the said objectives. In view of the prospects of the Group's mobile phone national distributorship, the Group is also considering the aptness of disposing of this operation.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 30 June 2007, the interests and short positions of the Directors and Chief Executive in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

Long position in Shares

Name of Director	Nature of capital	Number of ordinary shares held	Percentage of the issued share capital of the Company
Mr. Lau Siu Ying	Held by trust (Note)	207,000,013	58.29%
	Personal interest	280,000	0.08%
		207,280,013	58.37%

Remarks: Mr. Lau Siu Ying and his spouse were granted options to subscribe 2,000,000 ordinary shares and 1,000,000 ordinary shares respectively.

Note: These shares are held by Future 2000 Limited, a company incorporated in the British Virgin Islands which in turn is held by a trust. The beneficiaries of the discretionary trust include Mr. Lau Siu Ying, his spouse and his children.

Save as disclosed above and below, none of the directors, chief executives nor their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as defined in the SFO as at 30 June 2007.

SHARE OPTION

The Company adopted a share option scheme on 14 January 2004 (the "Option Scheme") whereby the directors of the Company are authorised, at their discretion, to invite any eligible employee, executive directors, non-executive directors and independent non-executive directors, any shareholder of any member of the Group, any supplier, agent, customer, distributor, business associate or partner, professional or other adviser of, or consultant or contractor to, any member of the Group, to take up options to subscribe for shares of the Company. During the period under review, 28,262,000 share options were granted. A summary of the movement of the share options granted under the Option Scheme is as follows:

Grantee	Date of offer	Exercisable period	Exercise price per share	Granted during the period	Exercised during the period	Outstanding at 30 June 2007
<i>Directors:-</i>						
Lau Siu Ying	07.05.2007	07.05.2007-06.05.2012	HK\$1.29	2,000,000	-	2,000,000
Luo Xi Zhi	07.05.2007	07.05.2007-06.05.2012	HK\$1.29	100,000	-	100,000
Fung Oi Ip, Alfonso	07.05.2007	07.05.2007-06.05.2012	HK\$1.29	150,000	-	150,000
Lo Wing Yat	07.05.2007	07.05.2007-06.05.2012	HK\$1.29	100,000	-	100,000
Chang Wing Seng, Victor	07.05.2007	07.05.2007-06.05.2012	HK\$1.29	200,000	-	200,000
Wong Lit Chor, Alexis	07.05.2007	07.05.2007-06.05.2012	HK\$1.29	100,000	-	100,000
Chen Yi Gang	07.05.2007	07.05.2007-06.05.2012	HK\$1.29	100,000	-	100,000
Xiao Lei, Theresa (Spouse of Lau Siu Ying)	07.05.2007	07.05.2007-06.05.2012	HK\$1.29	1,000,000	-	1,000,000
Other qualified persons in aggregate	07.05.2007	07.05.2007-06.05.2012	HK\$1.29	24,512,000	4,000,000	20,512,000
				28,262,000	4,000,000	24,262,000

Notes:

1. The closing price of the share immediately before the date of grant of the options was HK\$1.21.
2. In respect of the options which were exercised during the period between 7 May 2007 and 6 May 2012, the weighted average closing price of the share immediately before the date which the option were exercised was HK\$1.97.
3. During the period, no share options were cancelled under the Option Scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed, no contracts of significance to which the company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsist at the end of the period or at any time during the period.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2007, the register of substantial shareholders maintained under Section 336 of the SFO shows that the Company had been notified of the following substantial shareholders' interests, being 5 per cent or more of the Company's issued share capital.

Name of substantial shareholders	Nature of Interest	Number of shares held	Approximate % of total issued shares of the Company
Future 2000 Limited (Notes 1 & 2)	discretionary trust	207,000,013	58.29%
Galaxy China Opportunities Fund	beneficial owner	40,000,000	11.26%

Notes:

1. Future 2000 Limited is wholly-owned by Mr. Lee Wai, Timothy as trustee of The Lau's Family Trust (being a discretionary trust) of which Mr. Lau Siu Ying, his spouse and their children are the current eligible beneficiaries but who do not have a fixed interests in the assets of the Lau's Family Trust.
2. Under the SFO, Mr. Lee Wai, Timothy is deemed to have interests in such Shares which Future 2000 Limited has interests as he is entitled to exercise more than one-third of the voting power at general meetings of Future 2000 Limited.

FUND RAISING ACTIVITY

On 27 June 2007, the Company has carried out a placement of 40,000,000 ordinary shares of HK\$0.10 each at a price of HK\$1.35 per share. The net proceeds generated from such placement amounted to approximately HK\$51.5 million and has been applied as general working capital of the Group.

During the period, the Company allotted and issued a total of 4,000,000 ordinary shares of HK\$0.10 each as a result of the exercise of share option. The net proceeds generated amounted to approximately HK\$5.2 million and has been applied as general working capital of the Group.

PURCHASE, SALE OR REDEMPTION OF SHARES AND COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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 2007, the Company has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except that:

1. there is no separation of the role of chairman and chief executive officer. Mr. Lau Siu Ying currently assumes the role of both the Chairman and the Chief Executive Officer of the Company;
2. all Non-executive Directors of the Company are not appointed for a specific term as they are subject to retirement by rotation in accordance with the Company's Bye-laws; and
3. Mr. Lau Siu Ying, the Chairman of the Board of the Company does not need to retire by rotation.

Mr. Lau Siu Ying has been in charge of the overall management of the Company since 1992. Accordingly, although Mr. Lau Siu Ying does not need to retire by rotation and assumes the role of both the Chairman and the Chief Executive Officer of the Company, the Company considers that such arrangement at this stage can promote the efficient formulation and implementation of the Company's strategies which will enable the Group to further develop its businesses effectively. In addition, through the supervision of the Board and the independent non-executive directors, the interests of the shareholders are adequately and fairly represented.

The Company is considering the adoption of appropriate measures to ensure that the Company's corporate governance practices are no less stringent than those in the Code.

Audit Committee

The written term of reference which describes the authority and duties of the Audit Committee was prepared and adopted with reference to "A Guide for the Formation of an Audit Committee" and "A Guide for Effective Audit Committee" published by the Hong Kong Institute of Certified Public Accountants, and was amended in accordance with the Appendix 14 of the Listing Rules. The Audit Committee comprises of 2 independent non-executive directors, Messrs. Chang Wing Seng, Victor and Wong Lit Chor, Alexis and 1 non-executive director, Mr. Fung Oi Ip, Alfonso. The Audit Committee has reviewed with management the accounting policies and practices adopted by the Group and discussed internal controls and financial reporting matters, including the review of these unaudited interim financial statements for the six months ended 30 June 2007.

Remuneration Committee

The Remuneration Committee was established in accordance with the requirements of the CG Code. The Committee comprises of 2 independent non-executive directors, Messrs. Chang Wing Seng, Victor and Wong Lit Chor, Alexis and 1 non-executive director, Mr. Fung Oi Ip, Alfonso. The Committee was set up to consider and approve the remuneration packages of the senior employees of the Group, including the terms of salary and bonus schemes and other long-term incentive schemes. 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 to 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

Fortune Telecom Holdings Limited

Lau Siu Ying

Chairman

Hong Kong, 25 September 2007

As at the date of this report, the Board of Directors of Fortune Telecom Holdings Limited comprise 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.

