China Fortune Holdings Limited

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

Stock Code: 0110

2010 Interim Report

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CORPORATE INFORMATION

Board of Directors

Chairman
Mr. Lau Siu Ying

Executive Directors
Mr. Luo Xi Zhi
Mr. Wang Yu

Non-executive Directors
Mr. Fung Oi Ip, Alfonso
Mr. Lo Wing Yat

Independent Non-executive Directors
Mr. Chang Wing Seng, Victor
Mr. Wong Lit Chor, Alexis
Mr. Chen Yi Gang

Company Secretary

Mr. Lam Man Kit

Audit Committee

Mr. Chang Wing Seng, Victor
(Committee Chairman)
Mr. Fung Oi Ip, Alfonso
Mr. Wong Lit Chor, Alexis

Registered Office

Clarendon House, 2 Church Street,
Hamilton HM11, Bermuda.

Hong Kong Head Office

Room 1505-07, Tower A, Regent Centre,
63 Wo Yi Hop Road, Kwai Chung,
Hong Kong.

China Head Office

Room 1901, 19/F., BM Tower,
218 Wu Song Road,
Shanghai, PRC.

Shanghai Office

Room 328, Xin Mao Lou,
2 Tai Zhong Nan Lu,
Waigaoqiao Free Trade Zone,
Shanghai, PRC.

Principal Share Registrar and Transfer Office

HSBC Bank Bermuda Limited
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.

Auditor

Deloitte Touche Tohmatsu

Legal Advisors

Conyers Dill & Pearman

Principal Bankers

China Merchants Bank
CITIC Bank International

Corporate Websites

www.fortunetele.com
www.chinafortune.com

Stock Code

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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 pervious 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 ("MII"), 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

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

At 30 June 2010, the interests and short positions of the directors, the chief executive and their associates in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")), which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

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

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Lau Siu Ying	Held by a discretionary trust (Note 1)	188,300,013	22.92%
	Beneficial owner	259,996,285	31.64%
		448,296,298	54.56%

(b) Share options

Name of director	Capacity	Number of options held	Number of underlying shares
Mr. Lau Siu Ying	Beneficial owner	2,000,000	2,000,000
	Held by spouse (Note 2)	1,000,000	1,000,000
Mr. Luo Xi Zhi	Beneficial owner	100,000	100,000
Mr. Wang Yu	Beneficial owner	300,000	300,000
Mr. Fung Oi Ip, Alfonso	Beneficial owner	150,000	150,000
Mr. Lo Wing Yat	Beneficial owner	100,000	100,000
Mr. Chang Wing Seng, Victor	Beneficial owner	200,000	200,000
Mr. Wong Lit Chor, Alexis	Beneficial owner	100,000	100,000
Mr. Chen Yi Gang	Beneficial owner	100,000	100,000
		4,050,000	4,050,000

Notes:

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

2. Mr. Lau Siu Ying is deemed to be interested in 1,000,000 options to acquire shares of the Company, being the interests held beneficially by his spouse.

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

Save as disclosed above, none of the directors, chief executives nor their associates had any interests or short positions in any shares or underlying shares of the Company or any of its associated corporations as defined in the SFO at 30 June 2010.

Share options

The Company adopted a share option scheme on 14 January 2004 (the "Scheme") which was effective on 26 January 2004 and will expire on 26 January 2014. The primary purpose of the Scheme is to provide incentives to directors, eligible employees and other qualified persons who in the opinion of the board of directors has made or will make contributions which are or may be beneficial to the Group as a whole.

Under the Scheme, the directors of the Company may, subject to certain conditions, grant to any director, employee, supplier, agent, customer, distributor, business associate or partner, professional or other advisor of, or consultant or contractor to, any member of the Group or any associated company who in the opinion of the board of directors has made or will make contributions which are or may be beneficial to the Group as a whole, options to subscribe for shares of the Company at any price but not less than the higher of (i) nominal value of a share, (ii) the closing price of the shares on the Stock Exchange on the day of grant and (iii) the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the options, subject to a maximum of 10% of the issued share capital of the Company from time to time.

At as 30 June 2010, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 8,546,000, representing 1% of the shares of the Company in issue at that date. Without prior approval from the shareholders of the Company, (i) the total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, and (ii) the number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time.

Options granted must be taken up within the time period set out in the offer letter and upon payment of HK$1 for each lot of share option granted.

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

	Date of grant	Exercise price HK$	Outstanding at beginning of the period	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at end of the period
Category I – Directors							
Mr. Lau Siu Ying	7.5.2007	1.29	2,000,000	–	–	–	2,000,000
Mr. Luo Xi Zhi	7.5.2007	1.29	100,000	–	–	–	100,000
Mr. Wang Yu	7.5.2007	1.29	300,000	–	–	–	300,000
Mr. Fung Oi Ip, Alfonso	7.5.2007	1.29	150,000	–	–	–	150,000
Mr. Lo Wing Yat	7.5.2007	1.29	100,000	–	–	–	100,000
Mr. Chang Wing Seng, Victor	7.5.2007	1.29	200,000	–	–	–	200,000
Mr. Wong Lit Chor, Alexis	7.5.2007	1.29	100,000	–	–	–	100,000
Mr. Chen Yi Gang	7.5.2007	1.29	100,000	–	–	–	100,000
Total for directors			3,050,000	–	–	–	3,050,000
Category II – Employees							
Employees	7.5.2007	1.29	1,552,000	–	–	(6,000)	1,546,000
Category III – Consultants							
Consultants	7.5.2007	1.29	3,950,000	–-	–	–	3,950,000
Total for all categories			8,552,000	–	–	(6,000)	8,546,000

The closing pricing of the shares of the Company immediately before 7 May 2007, the date of grant of the options, was HK$1.21.

Directors' rights to acquire shares or debentures

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

Substantial shareholders

The register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, as at 30 June 2010, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

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

Name of substantial shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Lau Siu Ying	Held by a discretionary trust (Note 1)	188,300,013	22.92%
	Beneficial owner	259,996,285	31.64%
		448,296,298	54.56%
Mr. Lee Wai, Timothy	Held by controlled entity (Note 2)	188,300,013	22.92%
Ms. Lei Yuting	Beneficial owner	51,000,000	6.21%

(b) Share options

Name of substantial shareholder	Capacity	Number of options held	Number of underlying shares
Mr. Lau Siu Ying	Beneficial owner	2,000,000	2,000,000
	Held by spouse (Note 3)	1,000,000	1,000,000
Mr. Lee Wai, Timothy	Beneficial owner	100,000	100,000
		3,100,000	3,100,000

Notes:

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

2. Under the SFO, Mr. Lee Wai, Timothy is deemed to have interests in the shares of the Company 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.

3. Mr. Lau Siu Ying is deemed to be interested in 1,000,000 options to acquire shares of the Company, being the interests held beneficially by his spouse.

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.

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	30/6/2009
		HK$'000	HK$'000
		(unaudited)	(unaudited)
Continuing operations			
Revenue	3	**1,143,442**	960,470
Cost of sales		**(1,108,396)**	(940,291)
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		**193**	331
Profit before taxation		**2,585**	16,652
Income tax charge	6	**(78)**	(20)
Profit for the period from continuing operations		**2,507**	16,632
Discontinued operations			
Loss for the period from discontinued operations	7	**—**	(4,316)
Profit for the period	8	**2,507**	12,316
Attributable to:			
Owners of the Company		**3,279**	12,318
Non-controlling interests		**(772)**	(2)
		2,507	12,316
Earnings per share			
From continuing and discontinued operations			
Basic and diluted (HK cent(s))	9	**0.4**	3.3
From continuing operations			
Basic and diluted (HK cent(s))	9	**0.4**	4.5

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	**2,507**	12,316
Other comprehensive income		
Exchange differences arising on translation	**1,665**	—
Total comprehensive income for the period	**4,172**	12,316
Total comprehensive income attributable to:		
Owners of the Company	**4,941**	12,318
Non-controlling interests	**(769)**	(2)
	4,172	12,316

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2010

	Note	**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
		431,648	431,797
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
		358,358	267,140
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
		226,816	141,716
Net current assets		**131,542**	125,424
Total assets less current liabilities		**563,190**	557,221

	Note	30/6/2010 HK$'000 (unaudited)	31/12/2009 HK$'000 (audited)
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
		417,853	313,312
Non-current liabilities			
Deferred tax liabilities		**101,389**	101,473
Convertible loan notes		**—**	100,306
Promissory notes		**43,948**	42,130
		145,337	243,909
		563,190	557,221

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)	37,279	195,183	2,481	50,606	30,132	5,097	(131,280)	189,498	5,282	194,780
Profit for the period	–	–	–	–	–	–	12,318	12,318	(2)	12,316
Total comprehensive income (expense) for the period	–	–	–	–	–	–	12,318	12,318	(2)	12,316
Balance at 30 June 2009 (unaudited)	37,279	195,183	2,481	50,606	30,132	5,097	(118,962)	201,816	5,280	207,096
Balance at 1 January 2010 (audited)	67,881	306,879	2,481	49,047	30,132	4,483	(302,649)	158,254	155,058	313,312
Profit for the period	–	–	–	–	–	–	3,279	3,279	(772)	2,507
Exchange differences arising on translation	–	–	–	1,662	–	–	–	1,662	3	1,665
Total comprehensive income (expense) for the period	–	–	–	1,662	–	–	3,279	4,941	(769)	4,172
Transfer of reserve upon forfeiture of share options	–	–	–	–	–	(3)	3	–	–	–
Issue of shares upon exercise of convertible loan notes	14,285	86,084	–	–	–	–	–	100,369	–	100,369
Balance at 30 June 2010 (unaudited)	82,166	392,963	2,481	50,709	30,132	4,480	(299,367)	263,564	154,289	417,853

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	**46,605**	(56,470)
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	**254**	—
Cash and cash equivalents at 30 June	**32,083**	27,020
Represented by:		
Bank balances and cash	**32,083**	27,020

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Six months ended 30 June 2009 (unaudited)

	Mobile phone business				Mining business	
	Continuing (PRC)	Discontinued (HK)	Elimination	Total	Continuing (PRC)	Consolidated
	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	33,207	290	(33,497)	—	—	—
	993,677	48,993	(33,497)	1,009,173	—	1,009,173
Results						
Segment results	21,879	731	—	22,610	—	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						331
Profit before taxation						12,428
Income tax charge						(112)
Profit for the period						12,316

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	**2,122**	—
	5,441	1,202
Discontinued operations		
Interest expense on:		
Borrowings wholly repayable within five years	**—**	45
	5,441	1,247

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 (Note)	**(84)**	—
Income tax charge relating to continuing operations	**78**	20
Discontinued operations		
Income tax charge relating to discontinued operations:		
Current tax in Hong Kong	**—**	92
	78	112

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., 上海長遠忻科貿易有限公司 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%. 黃石鍶發礦業有限公司 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)
	(4,316)

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	(46,650)
Gross profit	2,053
Other gains, net	5,514
Selling and distribution costs	(2,928)
Administrative expenses	(3,908)
Finance costs	(45)
Profit before tax	686
Income tax charge	(92)
Profit for the period ended 30 June 2009	594

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 HK$'000 (unaudited)	30/6/2009 HK$'000 (unaudited)	**30/6/2010 HK$'000 (unaudited)**	30/6/2009 HK$'000 (unaudited)	**30/6/2010 HK$'000 (unaudited)**	30/6/2009 HK$'000 (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	**6,252**	5,913	**—**	2,694	**6,252**	8,607
	7,384	7,060	**—**	2,694	**7,384**	9,754

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)
Earnings		
Profit for the period attributable to owners of the Company	**3,279**	12,318
Number of shares	**'000**	'000
Weighted average number of ordinary shares in issue	**819,296**	372,790
Basic earnings per share (HK cent(s))	**0.4**	3.3

From continuing operations

Earnings figures are calculated as follows:

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

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	**(15,034)**	(15,501)
	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	**(80)**	(12,626)
	123,236	85,849

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	**575**	380
	14,815	9,421

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	**1,139**	2,163
	2,959	5,801
Rebates payable	**89,794**	47,983
Other payables and accruals	**31,664**	36,013
	124,417	89,797

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	**48,334**	14,010
	71,134	14,010
Secured	**14,134**	14,010
Unsecured	**57,000**	—
	71,134	14,010

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	1,000,000,000	100,000
Issued and fully paid		
At 1 January 2009	372,790,000	37,279
Allotment of new shares (Note 1)	306,016,300	30,602
At 31 December 2009	678,806,300	67,881
Allotment of new shares (Note 2)	142,857,142	14,285
At 30 June 2010	821,663,442	82,166

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.

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

Hong Kong, 27 August 2010

As at the date of this report, 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; 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.