



中國長遠控股有限公司
China Fortune Holdings Limited

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

Stock Code: 0110



Interim Report 2011

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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 Director

Mr. Fung Oi Ip, Alfonso

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

BDO Limited

Legal Advisor

Conyers Dill & Pearman

Principal Banker

China Merchants Bank

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"). The Group recorded a consolidated revenue during the period of HK\$1,028.4 million when compared to the previous corresponding period of HK\$1,116.8 million. The decrease in revenue was mainly attributable to a decrease from the fulfillment distribution business for Nokia Stores. The gross profit amounted to HK\$22.1 million, a decrease when compared to the previous corresponding period of HK\$30.3 million. The gross margin percentage during the period was 2.2% which was lower than the previous corresponding period of 2.7%. The Group recorded a write-down on inventories according to the accounting policy adopted by the Group, amounted to HK\$6.5 million during the period, which rendered a drop in the gross profit and as a result, the Group reported a net loss of HK\$2.7 million during the period when compared to a profit of HK\$2.5 million in the previous corresponding period.

The selling and distribution costs amounted to HK\$8.5 million when compared to the previous corresponding period of HK\$12.3 million. The administrative expenses amounted to HK\$16.1 million, an increase when compared to the previous corresponding period of HK\$12.3 million. Recent appreciation of Renminbi and inflation in the PRC led to higher administrative costs, together with increased expenses as a result of a higher revenue level achieved in the mining business during the period when compared to the previous corresponding period, from HK\$3 million to HK\$16.4 million.

As far as the mobile phone retail chain subsidiary in Zhuhai was concerned, the revenue achieved during the period amounted to HK\$20.4 million which remained more or less the same level as compared with the previous corresponding period. The Group shared a net gain of HK\$0.1 million from the result of an associate during the period as compared to HK\$0.2 million in the previous corresponding period.

The finance costs during the period decreased from HK\$5.4 million in the previous corresponding period to HK\$3.5 million due to the decrease in the level of bank and other borrowings in the period.

The net asset value of the Group as at 30 June 2011 amounted to HK\$287.1 million or HK\$0.35 per share when compared to HK\$283.6 million or HK\$0.35 per share as at 31 December 2010. As at 30 June 2011, the Group's bank and other borrowings amounted to HK\$38.9 million, as compared to HK\$50 million as at 31 December 2010, which was a result of the intention to reduce the financial burden of the Group over the period.

The gearing ratio of the Group, defined as the ratio of the total long term liabilities to the shareholder's equity, remained at 0.37 as at 30 June 2011 and 31 December 2010.

The total bank deposits and cash balances amounted to HK\$85.2 million as at 30 June 2011 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 2011 amounted to HK\$169.4 million, as compared to HK\$187.2 million as at 31 December 2010, mainly comprised inventories from the fulfillment distribution business for Nokia Stores. The inventory turnover period was 31 days for the six months ended 30 June 2011, as compared with the one for the twelve months ended 31 December 2010 of 26 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 2011 was HK\$91.6 million, as compared to HK\$173.2 million as at 31 December 2010. In order to minimize the credit risk for the trade receivables, the Group has implemented prudent 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 2011, the Group had in total 219 employees as compared to 234 employees as at 31 December 2010. Employees were remunerated according to the nature of their job duties and market trend. The Group provided staff welfare and fund contribution to its employees in accordance with the prevailing regulations in the PRC and Hong Kong. There was no material change in the remuneration policy, bonus scheme and share option scheme during the period. The Group has a share option scheme under which the Company may grant share options to the participants, including directors and employees, to subscribe for shares of the Company.

OPERATIONAL REVIEW

Market Overview

According to the statistics released by the Ministry of Industry and Information Technology of the People's Republic of China ("MIIT"), there were more than 920 million subscribers to mobile phone services in the PRC as at the end of June 2011, equivalent to a penetration rate of 68.8 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 is the core business of the Group which contributed more than 90% of the Group's revenue during the period. 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 mining business generated revenue and profit to the Group in this period. At the same time, the mining business is 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 is fuelled by a high internal consumption. As the world's biggest handset market, there were more than 920 million handset subscribers in the PRC with an annual growth rate of around 15% in terms of new subscribers and replacements. There were over 8% 3G users out of the total subscribers, and forecasted to increase much further in the near future. On the other hand, there were approximately 300 million mobile Internet users which implies that there are huge business opportunities in both mobile application and mobile commerce. Nokia, whilst maintaining its lead in middle and lower range handsets market, is also moving to strengthen its presence in the higher end smartphone segment by upgrading the Symbian platform and by forming collaboration with Microsoft Windows Mobile. Moreover, the latest released Nokia N9 model has received good response from the industry and consumers in the PRC. In the longer term, the resignation of Steve Jobs as CEO of Apple Inc. and the acquisition of Motorola Inc. by Google Inc. will potentially change the competitive profile in the market. We believe that Nokia will remain a leader of global mobile phone industry. Given our strong market position, channel experience, customer base and long term distribution relationship with Nokia, the Group remains confident in the future development of our core business.

OTHER INFORMATION

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

At 30 June 2011, 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. 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
		3,950,000	3,950,000

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 2011.

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 directors, employees, suppliers, agents, customers, distributors, business associates or partners, professionals or other advisors of, or consultants or contractors to, any members of the Group or any associated companies 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 2011, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 8,446,000, 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 per share 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. 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			2,950,000	–	–	–	2,950,000
Category II – Employees							
Employees	7.5.2007	1.29	1,546,000	–	–	–	1,546,000
Category III – Consultants							
Consultants	7.5.2007	1.29	3,950,000	–	–	–	3,950,000
Total for all categories			8,446,000	–	–	–	8,446,000

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 2011, 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%
		<u>448,296,298</u>	<u>54.56%</u>
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
		<u>3,100,000</u>	<u>3,100,000</u>

Notes:

- 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.
- 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.
- 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 2011, the Company has complied with 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"), 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 2011.

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") presents the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2011, 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 2011

	Note	Six months ended	
		30/6/2011 HK\$'000 (unaudited)	30/6/2010 HK\$'000 (unaudited)
Revenue	3	1,028,391	1,116,843
Cost of sales		(1,006,278)	(1,086,570)
Gross profit		22,113	30,273
Other income		3,310	2,317
Other losses		(14)	(133)
Selling and distribution costs		(8,524)	(12,334)
Administrative expenses		(16,067)	(12,290)
Finance costs	5	(3,478)	(5,441)
Share of result of an associate		50	193
(Loss)/profit before income tax		(2,610)	2,585
Income tax expense	6	(110)	(78)
(Loss)/profit for the period	7	(2,720)	2,507
Attributable to:			
Owners of the Company		(2,296)	3,279
Non-controlling interests		(424)	(772)
		(2,720)	2,507
(Loss)/earnings per share			
Basic and diluted (HK cent(s))	8	(0.28)	0.40

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*For the six months ended 30 June 2011*

	Six months ended	
	30/6/2011	30/6/2010
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
(Loss)/profit for the period	(2,720)	2,507
Other comprehensive income		
Exchange differences arising on translation	8,572	1,665
Total comprehensive income for the period	5,852	4,172
Total comprehensive income attributable to:		
Owners of the Company	3,522	4,941
Non-controlling interests	2,330	(769)
	5,852	4,172

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2011

	Note	30/6/2011 HK\$'000 (unaudited)	31/12/2010 HK\$'000 (audited)
Non-current assets			
Plant and equipment		8,488	8,680
Mining right		441,034	433,683
Goodwill		2,910	2,910
Investment in an associate		3,844	4,463
Available-for-sale investment		69	69
Club memberships		1,380	1,376
		<u>457,725</u>	<u>451,181</u>
Current assets			
Inventories		169,362	187,155
Trade and other receivables	9	91,625	173,150
Bills receivable		6,791	7,056
Amounts due from related parties		2,922	3,172
Bank balances and cash		85,220	45,667
		<u>355,920</u>	<u>416,200</u>
Current liabilities			
Trade and other payables	10	159,715	203,873
Amounts due to related parties		937	8,770
Taxation payables		6,725	6,782
Bank and other borrowings	11	38,878	50,030
Promissory notes		47,614	45,796
		<u>253,869</u>	<u>315,251</u>
Net current assets		<u>102,051</u>	<u>100,949</u>
Total assets less current liabilities		<u>559,776</u>	<u>552,130</u>

	Note	30/6/2011 HK\$'000 (unaudited)	31/12/2010 HK\$'000 (audited)
Capital and reserves			
Share capital	12	82,166	82,166
Reserves		204,967	201,445
		<hr/>	<hr/>
Equity attributable to owners of the Company		287,133	283,611
Non-controlling interests		165,025	162,695
		<hr/>	<hr/>
		452,158	446,306
		<hr/>	<hr/>
Non-current liabilities			
Deferred tax liabilities		107,618	105,824
		<hr/>	<hr/>
		559,776	552,130
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

	Share capital	Share premium	Special reserve	Translation reserve	Statutory funds	Share option reserve	Accumulated losses	Attributable to owners of the Company	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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 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 conversion 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
Balance at 1 January 2011 (audited)	82,166	392,962	2,481	59,161	30,132	4,428	(287,719)	283,611	162,695	446,306
Loss for the period	-	-	-	-	-	-	(2,296)	(2,296)	(424)	(2,720)
Exchange differences arising on translation	-	-	-	5,818	-	-	-	5,818	2,754	8,572
Total comprehensive income for the period	-	-	-	5,818	-	-	(2,296)	3,522	2,330	5,852
Balance at 30 June 2011 (unaudited)	82,166	392,962	2,481	64,979	30,132	4,428	(290,015)	287,133	165,025	452,158

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS*For the six months ended 30 June 2011*

	Six months ended	
	30/6/2011	30/6/2010
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash generated from/(used in) operating activities	60,583	(26,446)
Net cash (used in)/generated from investing activities	(477)	4,406
Net cash (used in)/generated from financing activities	(21,493)	46,605
	<hr/>	<hr/>
Net increase in cash and cash equivalents	38,613	24,565
Cash and cash equivalents at 1 January	45,667	7,264
Effect of foreign exchange rate changes	940	254
	<hr/>	<hr/>
Cash and cash equivalents at 30 June	85,220	32,083
	<hr/> <hr/>	<hr/> <hr/>
Represented by:		
Bank balances and cash	85,220	32,083
	<hr/> <hr/>	<hr/> <hr/>

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 2011 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 2010, 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.

HKFRS 1 Amendment	Amendment to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 Amendment	Amendment to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues
HK(IFRIC) – Int 14 Amendments	Amendments to HK(IFRIC) – Int 14 Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010

The adoption of these new and revised HKFRSs has had no material impact on the Group's results of operations and financial position.

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

HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters ¹
HKFRS 7 Amendments	Amendments to HKFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets ¹
HKFRS 9	Financial Instruments ²
HKFRS 10	Consolidated Financial Statements ²
HKFRS 11	Joint Arrangements ²
HKFRS 12	Disclosure of Interests in Other Entities ²
HKFRS 13	Fair Value Measurement ²
HKAS 1 (Revised)	Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income ³
HKAS 12 Amendments	Amendments to HKAS 12 Income Taxes – Deferred Tax: Recovery of Underlying Assets ⁴
HKAS 19 (2011)	Employee Benefits ²
HKAS 27 (2011)	Separate Financial Statements ²
HKAS 28 (2011)	Investments in Associates and Joint Ventures ²

¹ Effective for annual periods beginning on or after 1 July 2011

² Effective for annual periods beginning on or after 1 January 2013

³ Effective for annual periods beginning on or after 1 July 2012

⁴ Effective for annual periods beginning on or after 1 January 2012

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on its results of operations and financial position.

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.

For the six months ended 30 June 2011 (unaudited)

	Mobile phone business HK\$'000	Mining business HK\$'000	Total HK\$'000
Reportable segment revenue from external customers	<u>1,012,010</u>	<u>16,381</u>	<u>1,028,391</u>
Reportable segment profit	<u>3,538</u>	<u>1,162</u>	<u>4,700</u>
Loss on write-off/disposal of plant and equipment	2	–	2
Depreciation and amortisation	669	314	983
Write down of inventories	6,459	–	6,459
Income tax (credit) expense	(22)	132	110
Reportable segment assets	343,096	461,628	804,724
Additions to non-current assets	163	608	771
Reportable segment liabilities	(168,948)	(137,183)	(306,131)
Revenue			
Reportable segment revenue and consolidated revenue			1,028,391
Loss before income tax			
Reportable segment profit			4,700
Bank interest income			182
Miscellaneous income			92
Corporate expenses			(4,156)
Share of result of an associate			50
Finance costs			(3,478)
Consolidated loss before income tax			<u>(2,610)</u>
Assets			
Reportable segment assets			804,724
Unallocated corporate assets			
– Investment in an associate			3,844
– Others			5,077
Consolidated total assets			<u>813,645</u>
Liabilities			
Reportable segment liabilities			306,131
Unallocated corporate liabilities			
– Promissory notes			47,614
– Others			7,742
Consolidated total liabilities			<u>361,487</u>

For the six months ended 30 June 2010 (unaudited)

	Mobile phone business HK\$'000	Mining business HK\$'000	Total HK\$'000
Reportable segment revenue from external customers	1,113,807	3,036	1,116,843
Reportable segment profit/(loss)	12,861	(475)	12,386
Depreciation and amortisation	310	–	310
Reversal of allowance for inventories	(2,761)	–	(2,761)
Income tax expense	78	–	78
Reportable segment assets	353,726	429,781	783,507
Additions to non-current assets	1,559	115	1,674
Reportable segment liabilities	(163,384)	(125,920)	(289,304)
Revenue			
Reportable segment revenue and consolidated revenue			1,116,843
Profit before income tax			
Reportable segment profit			12,386
Interest income			124
Miscellaneous income			56
Corporate expenses			(4,733)
Share of result of an associate			193
Finance costs			(5,441)
Consolidated profit before income tax			2,585
Assets			
Reportable segment assets			783,507
Unallocated corporate assets			
– Investment in an associate			4,212
– Others			2,287
Consolidated total assets			790,006
Liabilities			
Reportable segment liabilities			289,304
Unallocated corporate liabilities			
– Promissory notes			51,801
– Others			31,048
Consolidated total liabilities			372,153

5. Finance costs

	Six months ended	
	30/6/2011	30/6/2010
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interests on:		
Bank and other borrowings wholly repayable		
within five years	1,644	2,971
Promissory notes	1,818	2,122
Bills discounting	16	285
Convertible loan notes	–	63
	3,478	5,441

6. Income tax expense

	Six months ended	
	30/6/2011	30/6/2010
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Current tax:		
PRC Enterprise Income Tax ("EIT")	110	162
Deferred tax (Note)	–	(84)
Income tax charge	110	78

Fortune (Shanghai) International Trading Co., Ltd and 上海遠嘉國際貿易有限公司 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 was established in Zhuhai Special Economic Zone, the PRC. Accordingly, for the six months ended 30 June 2011, these PRC subsidiaries were entitled to a preferential EIT rate of 24% (2010: 22%). 黃石錳發礦業有限公司 ("Sifa Mining") was established in the PRC and subject to the EIT rate of 25% for the six months ended 30 June 2011 (2010: 25%).

PRC EIT represents tax charge on the assessable profits of the Company's subsidiary, Sifa Mining.

Note:

The deferred tax liabilities were credited to consolidated financial statements for the six months ended 30 June 2010.

7. (Loss)/profit for the period

	Six months ended	
	30/6/2011	30/6/2010
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
(Loss)/profit for the period has been arrived after charging:		
Depreciation of plant and equipment	989	839
Exchange loss (Note)	168	184
Staff costs		
– Directors' emoluments	1,484	1,491
– Other staff costs	5,799	5,810
– Retirement benefit scheme contribution (excluding directors)	1,261	1,074
	8,544	8,375
	<hr/> <hr/>	<hr/> <hr/>
and after crediting:		
Service income from provision of logistics and promotion services	1,679	1,591
Government grants	1,165	–
Interest income	182	124
	<hr/> <hr/>	<hr/> <hr/>

Note: Amounts included in other losses.

8. (Loss)/earnings per share

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

	Six months ended	
	30/6/2011	30/6/2010
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
<i>(Loss)/earnings</i>		
(Loss)/profit for the period attributable to owners of the Company	(2,296)	3,279
	<hr/> <hr/>	<hr/> <hr/>
	'000	'000
<i>Number of shares</i>		
Weighted average number of ordinary shares in issue	821,663	819,296
Basic (loss)/earnings per share (HK cent(s))	(0.28)	0.40
	<hr/> <hr/>	<hr/> <hr/>

No diluted (loss)/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 ended 30 June 2011 and 30 June 2010.

9. Trade and other receivables

	30/6/2011 HK\$'000 (unaudited)	31/12/2010 HK\$'000 (audited)
Trade receivables	41,388	19,583
Less: accumulated allowance	(14,567)	(14,713)
	26,821	4,870
Value-added-tax receivables	5	6,238
Rebates receivable	38,382	66,126
Prepayments to suppliers	1,236	71,332
Other receivables and deposits	28,236	27,589
Less: accumulated allowance	(3,055)	(3,005)
	91,625	173,150

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:

	30/6/2011 HK\$'000 (unaudited)	31/12/2010 HK\$'000 (audited)
Trade receivables:		
0 to 30 days	25,942	3,320
31 to 90 days	879	1,423
Over 90 days	—	127
	26,821	4,870

10. 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:

	30/6/2011 HK\$'000 (unaudited)	31/12/2010 HK\$'000 (audited)
Trade payables:		
0 to 30 days	6,211	3,704
31 to 90 days	51	159
Over 90 days	201	599
	<hr/> 6,463	<hr/> 4,462
Rebates payable	111,673	116,190
Prepayments from customers	13,230	62,379
Other payables and accruals	28,349	20,842
	<hr/> 159,715 <hr/> <hr/>	<hr/> 203,873 <hr/> <hr/>

11. Bank and other borrowings

	30/6/2011 HK\$'000 (unaudited)	31/12/2010 HK\$'000 (audited)
Bank loans	24,000	23,600
Other borrowings	14,878	26,430
	<hr/> 38,878 <hr/> <hr/>	<hr/> 50,030 <hr/> <hr/>
Secured	14,878	14,630
Unsecured	24,000	35,400
	<hr/> 38,878 <hr/> <hr/>	<hr/> 50,030 <hr/> <hr/>

At the end of reporting period, all the Group's borrowings were repayable on demand or within one year. All bank loans are guaranteed by the Company.

12. Share capital

	Number of ordinary shares	Share capital HK\$'000
Ordinary shares of HK\$0.10 each		
<i>Authorised:</i>		
At 31 December 2010 and 30 June 2011	1,000,000,000	100,000
<i>Issued and fully paid:</i>		
At 1 January 2010	678,806,300	67,881
Allotment of new shares (Note)	142,857,142	14,285
At 31 December 2010 and 30 June 2011	821,663,442	82,166

Note: 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 convertible loan notes.

13. Dividend

The Board did not declare an interim dividend for the six months ended 30 June 2011 (2010: Nil per share).

14. 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 and Chief Executive Officer

Hong Kong, 26 August 2011

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