



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 2012



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CORPORATE INFORMATION

Board of Directors

Chairman and Executive Director

Mr. Lau Siu Ying

Executive Directors

Mr. Luo Xi Zhi

Mr. Wang Yu

Independent Non-executive Directors

Mr. Chang Wing Seng, Victor

Mr. Wong Lit Chor, Alexis

Dr. Law Chun Kwan

Company Secretary

Mr. Lam Man Kit

Audit Committee

Mr. Chang Wing Seng, Victor

(Committee Chairman)

Mr. Wong Lit Chor, Alexis

Dr. Law Chun Kwan

Remuneration Committee

Mr. Chang Wing Seng, Victor

(Committee Chairman)

Mr. Wong Lit Chor, Alexis

Mr. Lau Siu Ying

Nomination Committee

Mr. Lau Siu Ying *(Committee Chairman)*

Mr. Wang Yu

Mr. Chang Wing Seng, Victor

Mr. Wong Lit Chor, Alexis

Dr. Law Chun Kwan

Registered Office

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Hamilton HM11, Bermuda.

Hong Kong Head Office

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China Head Office

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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 Bankers

China Merchants Bank
ICBC

Corporate Websites

www.fortunetele.com
www.chinafortune.com

Stock Code

110

REVIEW AND OUTLOOK

Financial Review

The fulfillment distribution business for Nokia Stores continues to be the main 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\$331.7 million when compared to the previous corresponding period of HK\$1,028.4 million. The decrease in revenue was mainly attributable to a decrease in revenue from the fulfillment distribution business for Nokia Stores. The gross profit amounted to HK\$4.1 million, a decrease when compared to the previous corresponding period of HK\$22.1 million. The gross margin percentage during the period was 1.2% which was lower than the previous corresponding period of 2.2%. Besides the reduction in revenue, the Group recorded a write-down on inventories according to the accounting policy adopted by the Group, amounted to HK\$7.2 million during the period, which rendered a drop in the gross profit and as a result, the Group reported a net loss of HK\$10.9 million during the period when compared to a loss of HK\$2.7 million in the previous corresponding period.

The selling and distribution costs amounted to HK\$5.3 million when compared to the previous corresponding period of HK\$8.5 million. The administrative expenses amounted to HK\$13.7 million when compared to the previous corresponding period of HK\$16.1 million. Both of them recorded a decrease when compared to the previous corresponding period, which were in line with the drop in revenue in the period.

As far as the mobile phone retail chain subsidiary in Zhuhai was concerned, the revenue achieved during the period amounted to HK\$94.6 million which increased by HK\$74.2 million as compared with the previous corresponding period. The Group shared a net loss of HK\$0.2 million from the result of an associate during the period as compared to a net gain of HK\$0.1 million in the previous corresponding period. The finance costs during the period decreased from HK\$3.5 million in the previous corresponding period to HK\$0.7 million due to the decrease in the level of other borrowings in the period.

The net asset value of the Group as at 30 June 2012 amounted to HK\$302.6 million or HK\$0.37 per share when compared to HK\$314.8 million or HK\$0.38 per share as at 31 December 2011. As at 30 June 2012, the Group's other borrowings amounted to HK\$15.1 million, which was maintained at the same level as at 31 December 2011.

The gearing ratio of the Group, defined as the ratio of the total long term liabilities to the shareholder's equity, was 0.36 as at 30 June 2012 when compared to 0.35 as at 31 December 2011.

The total cash and cash equivalents amounted to HK\$131.5 million as at 30 June 2012 without any deposit pledged to banks. The Group is financed by a combination of its equity capital, cash flow generated from its operation and other 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 2012 amounted to HK\$58.4 million, as compared to HK\$132.4 million as at 31 December 2011, mainly comprised inventories from the fulfillment distribution business for Nokia Stores and from the retail chain business in Zhuhai. The inventory turnover period was 53 days for the six months ended 30 June 2012, as compared with the one for the twelve months ended 31 December 2011 of 34 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 2012 was HK\$52.1 million, as compared to HK\$59.9 million as at 31 December 2011.

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 2012, the Group had in total 195 employees as compared to 224 employees as at 31 December 2011. 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.

Market and Business Review, and Outlook

Handset Distribution

Nokia, who was the biggest mobile phone manufacturer for over a decade, lost its market share in the mobile phone industry substantially to Apple Inc. and various brands of handsets with the Android platform in these few years. Changes in handset application habit of consumers turn popular handsets from mobile-phone-based into smartphone-based. In view of this, besides from launching the popular Android-based smartphone, Nokia decided to collaborate with Microsoft Windows Phone in 2011. Nevertheless, the market has been expecting the new Nokia handset with Windows 8 system long enough but which is not yet available until the fourth quarter of 2012 as anticipated. Nokia could only lose its market share with substantial reduction in its turnover in the period.

The Group has been a distributor of Nokia handsets since incorporation. So the recent situation of Nokia directly and substantially led to a downturn of revenue of the Group in the period. The Group paid special attention and efforts in mitigating the effect and risks in the Nokia Store fulfillment distribution business by lowering the inventory level to a minimal amount. The management will keep monitoring this business segment and take timely and appropriate action when necessary.

Mining

We are now developing a new mining site exploitation system in our mine located in Huangshi which is expected to be completed before the end of year 2013, and further exploitation may commence the soonest in early 2013 when about half of the new exploitation system is established. Besides, 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.

Prospects

The world becomes even more and more challenging nowadays, so as in the PRC where is one of the strongest countries in terms of economic performance, and with its huge internal consumption and room for expansion. Though with keen competition, development potential is still enormous. 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 2012, 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 Issuers (the "Model Code"), were as follows:

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)	188,300,013	22.92%
	Beneficial owner	259,996,285	31.64%
		448,296,298	54.56%

Note: 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.

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 2012.

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 2012, no outstanding share options were available. 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 (resigned)	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 (resigned)	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	1,346,000	–	–	(1,346,000)	–
Category III – Consultants							
Consultants	7.5.2007	1.29	3,950,000	–	–	(3,950,000)	–
Total for all categories			8,246,000	–	–	(8,246,000)	–

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 2012, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

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%

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.

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.

Changes of directors and committee members

During the period, Mr. Fung Oi Ip, Alfonso resigned as a non-executive director of the Company, and as a member of the Audit Committee and the Remuneration Committee of the Company, on 5 June 2012. Mr. Chen Yi Gang resigned as an independent non-executive director of the Company, and as a member of the Nomination Committee of the Company, on 5 June 2012.

Dr. Law Chun Kwan was appointed as an independent non-executive director of the Company, and as a member of the Audit Committee and the Nomination Committee of the Company, on 5 June 2012.

CORPORATE GOVERNANCE

Compliance with the Corporate Governance Code

The Company had adopted the Code on Corporate Governance Practices (the "CGP Code") during the period from 1 January 2012 to 31 March 2012 and the Corporate Governance Code ("CG Code") during the period from 1 April 2012 to 30 June 2012 introduced in Appendix 14 of the Listing Rules by the Stock Exchange to maintain a high standard of corporate governance so as to improve the corporate transparency and protect the interests of the Company's shareholders. The Company has complied with the CGP Code during the period from 1 January 2012 to 31 March 2012 and the CG Code during the period from 1 April 2012 to 30 June 2012, 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. As at the date of this report, the Audit Committee comprises three Independent Non-executive Directors, Mr. Chang Wing Seng, Victor (Chairman of the Audit Committee), Mr. Wong Lit Chor, Alexis and Dr. Law Chun Kwan.

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 Group for the six months ended 30 June 2012.

Remuneration Committee

The Company has formulated written terms of reference for the Remuneration Committee in accordance with the requirements of the Listing Rules. As at the date of this report, 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 Executive Director, Mr. Lau Siu Ying.

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.

Nomination Committee

The Company has formulated written terms of reference for the Nomination Committee in accordance with the requirements of the Listing Rules. As at the date of this report, the Nomination Committee comprises two Executive Directors, Mr. Lau Siu Ying (Chairman of the Nomination Committee) and Mr. Wang Yu, and three Independent Non-executive Directors, Mr. Chang Wing Seng, Victor, Mr. Wong Lit Chor, Alexis and Dr. Law Chun Kwan.

The main responsibility of the Nomination Committee is to ensure a fair and transparent process of Board appointments, and in particular to assist the Board to identify suitably qualified candidates and make recommendations for consideration of the Board and shareholders.

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 2012, 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 2012

	Note	Six months ended	
		30/6/2012 HK\$'000 (unaudited)	30/6/2011 HK\$'000 (unaudited)
Revenue	3	331,709	1,028,391
Cost of sales		(327,613)	(1,006,278)
Gross profit		4,096	22,113
Other income		4,415	3,310
Other gains and losses		479	(14)
Selling and distribution costs		(5,306)	(8,524)
Administrative expenses		(13,673)	(16,067)
Finance costs	5	(694)	(3,478)
Share of result of an associate		(211)	50
Loss before income tax		(10,894)	(2,610)
Income tax expense	6	(23)	(110)
Loss for the period	7	(10,917)	(2,720)
Attributable to:			
Owners of the Company		(9,118)	(2,296)
Non-controlling interests		(1,799)	(424)
		(10,917)	(2,720)
Loss per share			
Basic and diluted (HK cent(s))	8	(1.11)	(0.28)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	Six months ended	
	30/6/2012	30/6/2011
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Loss for the period	(10,917)	(2,720)
Other comprehensive income		
Exchange differences arising on translation of foreign operations	(4,411)	8,572
Total comprehensive income for the period	(15,328)	5,852
Total comprehensive income attributable to:		
Owners of the Company	(12,204)	3,522
Non-controlling interests	(3,124)	2,330
	(15,328)	5,852

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2012

	Note	30/6/2012 HK\$'000 (unaudited)	31/12/2011 HK\$'000 (audited)
Non-current assets			
Plant and equipment		10,756	9,861
Mining right		448,385	452,060
Goodwill		—	—
Investment in an associate		2,378	3,800
Available-for-sale investment		69	69
Club memberships		1,261	1,263
		<u>462,849</u>	<u>467,053</u>
Current assets			
Inventories		58,393	132,365
Trade and other receivables	9	52,088	59,894
Bills receivable		—	1,476
Amounts due from related parties		3,484	3,590
Cash and cash equivalents		131,475	78,370
		<u>245,440</u>	<u>275,695</u>
Current liabilities			
Trade and other payables	10	106,226	105,876
Amounts due to related parties		6,931	25,369
Taxation payables		6,440	6,462
Other borrowings	11	15,126	15,250
		<u>134,723</u>	<u>152,957</u>
Net current assets		<u>110,717</u>	<u>122,738</u>
Total assets less current liabilities		<u>573,566</u>	<u>589,791</u>

	Note	30/6/2012 HK\$'000 (unaudited)	31/12/2011 HK\$'000 (audited)
Capital and reserves			
Share capital	12	82,166	82,166
Reserves		220,410	232,614
Equity attributable to owners of the Company		302,576	314,780
Non-controlling interests		161,579	164,703
		464,155	479,483
Non-current liabilities			
Deferred tax liabilities		109,411	110,308
		573,566	589,791

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

	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 equity HK\$'000
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 of foreign operations	-	-	-	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
Balance at 1 January 2012 (audited)	82,166	392,962	2,481	74,408	30,132	4,323	(271,692)	314,780	164,703	479,483
Loss for the period	-	-	-	-	-	-	(9,118)	(9,118)	(1,799)	(10,917)
Exchange differences arising on translation of foreign operations	-	-	-	(3,086)	-	-	-	(3,086)	(1,325)	(4,411)
Total comprehensive income for the period	-	-	-	(3,086)	-	-	(9,118)	(12,204)	(3,124)	(15,328)
Transfer of reserve upon forfeiture of share options	-	-	-	-	-	(4,323)	4,323	-	-	-
Balance at 30 June 2012 (unaudited)	82,166	392,962	2,481	71,322	30,132	-	(276,487)	302,576	161,579	464,155

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS*For the six months ended 30 June 2012*

	Six months ended	
	30/6/2012	30/6/2011
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash generated from operating activities	72,806	60,583
Net cash used in investing activities	(202)	(477)
Net cash used in financing activities	(18,491)	(21,493)
Net increase in cash and cash equivalents	54,113	38,613
Cash and cash equivalents at 1 January	78,370	45,667
Effect of foreign exchange rate changes	(1,008)	940
Cash and cash equivalents at 30 June	131,475	85,220

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 2012 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. Significant 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. It should be read in conjunction with the Group's 2011 annual report.

The accounting policies used in the preparation of the condensed consolidated interim financial statements are consistent with those used in the financial statements contained in the 2011 annual report except for the adoption of the new standards, amendments or interpretations issued by the HKICPA which are mandatory for the annual periods beginning 1 January 2012. The adoption of these standards, amendments or interpretations has no material effect on the Group's financial position or results of operations.

The Group has not early adopted the new standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the results and 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.

For the six months ended 30 June 2012 (unaudited)

	Mobile phone business HK\$'000	Mining business HK\$'000	Total HK\$'000
Reportable segment revenue from external customers	<u>331,709</u>	<u>–</u>	<u>331,709</u>
Reportable segment loss	<u>(6,436)</u>	<u>(2,399)</u>	<u>(8,835)</u>
Loss on write-off of plant and equipment	3	–	3
Depreciation and amortisation	536	340	876
Write down of inventories	7,203	–	7,203
Reportable segment assets	240,769	461,796	702,565
Additions to non-current assets	41	1,784	1,825
Reportable segment liabilities	(89,591)	(139,806)	(229,397)
Revenue			
Reportable segment revenue and consolidated revenue			331,709
Loss before income tax			
Reportable segment loss			(8,835)
Interest income			1,659
Miscellaneous income			835
Corporate expenses			(3,648)
Share of result of an associate			(211)
Finance costs			(694)
Consolidated loss before income tax			<u>(10,894)</u>
Assets			
Reportable segment assets			702,565
Unallocated corporate assets			
– Investment in an associate			2,378
– Others			3,346
Consolidated total assets			<u>708,289</u>
Liabilities			
Reportable segment liabilities			229,397
Unallocated corporate liabilities			14,737
Consolidated total liabilities			<u>244,134</u>

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	1,012,010	16,381	1,028,391
Reportable segment profit	3,538	1,162	4,700
Loss on disposal of plant and equipment	2	–	2
Depreciation and amortisation	669	314	983
Write down of inventories	6,459	–	6,459
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
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			(2,610)
Assets			
Reportable segment assets			804,724
Unallocated corporate assets			
– Investment in an associate			3,844
– Others			5,077
Consolidated total assets			813,645
Liabilities			
Reportable segment liabilities			306,131
Unallocated corporate liabilities			
– Promissory notes			47,614
– Others			7,742
Consolidated total liabilities			361,487

5. Finance costs

	Six months ended	
	30/6/2012	30/6/2011
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interests on:		
Bank and other borrowings wholly repayable		
within five years	646	1,644
Promissory notes	–	1,818
Bills discounting	48	16
	<hr/> 694 <hr/>	<hr/> 3,478 <hr/>

6. Income tax expense

	Six months ended	
	30/6/2012	30/6/2011
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Current tax – PRC Enterprise Income Tax		
– provision for the period	–	110
– under-provision in respect of prior year	23	–
	<hr/> 23 <hr/>	<hr/> 110 <hr/>

Under the Law of the People's Republic of China (the "PRC") on Enterprise Income Tax (the "EIT Law") and Implementation Regulations of the EIT Law, the Enterprise Income Tax rate of the Group's subsidiaries in the PRC is 25% for the six months ended 30 June 2012 (ranged from 24% to 25% for the six months ended 30 June 2011).

7. Loss for the period

	Six months ended	
	30/6/2012	30/6/2011
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Loss for the period has been arrived after charging:		
Depreciation of plant and equipment	891	989
Exchange loss	–	168
Staff costs		
– Directors' emoluments	1,491	1,484
– Other staff costs	5,640	5,799
– Retirement benefit scheme contribution (excluding directors)	1,187	1,261
	8,318	8,544
and after crediting:		
Service income from provision of logistics and promotion services	2,314	1,679
Government grants	–	1,165
Interest income	1,659	182

8. Loss per share

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

	Six months ended	
	30/6/2012	30/6/2011
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
<i>Loss</i>		
Loss for the period attributable to owners of the Company	(9,118)	(2,296)
	'000	'000
<i>Number of shares</i>		
Weighted average number of ordinary shares in issue	821,663	821,663
Basic loss per share (HK cent(s))	(1.11)	(0.28)

No diluted loss per share is presented as the exercise price of the Company's share options was higher than the average market price for the period ended 30 June 2011. No outstanding share options were available as at 30 June 2012.

9. Trade and other receivables

	30/6/2012 HK\$'000 (unaudited)	31/12/2011 HK\$'000 (audited)
Trade receivables	29,521	30,066
Less: accumulated allowance	(14,083)	(14,083)
	15,438	15,983
Value-added-tax receivables	516	2,756
Rebates receivable	11,210	11,988
Prepayments to suppliers	11,090	16,335
Other receivables and deposits	16,939	15,962
Less: accumulated allowance	(3,105)	(3,130)
	52,088	59,894

The Group generally requests for full prepayment from its trade customers but it also allows certain 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:

	30/6/2012 HK\$'000 (unaudited)	31/12/2011 HK\$'000 (audited)
Trade receivables		
0 to 30 days	6,953	11,412
31 to 90 days	1,760	2,438
Over 90 days	6,725	2,133
	15,438	15,983

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:

	30/6/2012 HK\$'000 (unaudited)	31/12/2011 HK\$'000 (audited)
Trade payables		
0 to 30 days	1,473	1,463
31 to 90 days	478	128
Over 90 days	140	305
	<hr/>	<hr/>
	2,091	1,896
Rebates payable	48,644	76,291
Prepayments from customers	41,220	9,615
Other payables and accruals	14,271	18,074
	<hr/>	<hr/>
	106,226	105,876
	<hr/> <hr/>	<hr/> <hr/>

11. Other borrowings

	30/6/2012 HK\$'000 (unaudited)	31/12/2011 HK\$'000 (audited)
Other borrowings – Secured	15,126	15,250
	<hr/> <hr/>	<hr/> <hr/>

At the end of reporting period, all the Group's borrowings were repayable on demand or within one year.

12. Share capital

	Number of ordinary shares	Share capital HK\$'000
Ordinary shares of HK\$0.10 each		
<i>Authorised:</i>		
At 31 December 2011 and 30 June 2012	1,000,000,000	100,000
	<hr/>	<hr/>
<i>Issued and fully paid:</i>		
At 31 December 2011 and 30 June 2012	821,663,442	82,166
	<hr/> <hr/>	<hr/> <hr/>

13. Dividend

The Board did not declare an interim dividend for the six months ended 30 June 2012 and 30 June 2011.

By order of the Board

China Fortune Holdings Limited

Lau Siu Ying

Chairman and Chief Executive Officer

Hong Kong, 31 August 2012

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; and three independent non-executive directors, namely Mr. Chang Wing Seng, Victor, Mr. Wong Lit Chor, Alexis and Dr. Law Chun Kwan.