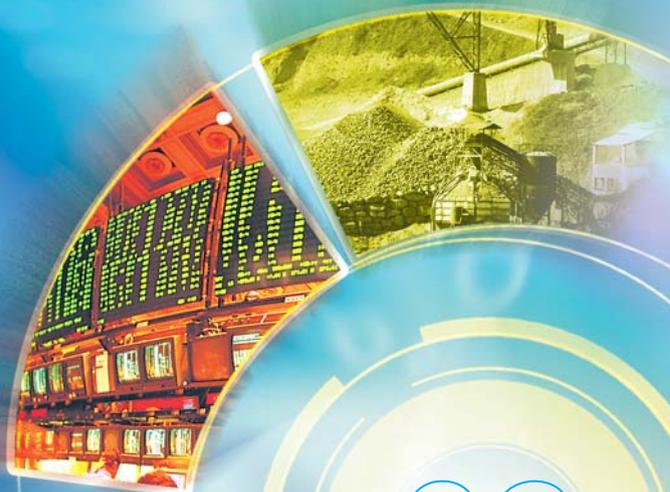




China Fortune Holdings Limited

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

Stock Code: 0110



08

Interim Report

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CORPORATE INFORMATION

Board of Directors

Chairman

Mr. Lau Siu Ying

Executive Director

Mr. Luo Xi Zhi

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. Cheng Ka Chung

Audit Committee

Mr. Chang Wing Seng, Victor
(Committee Chairman)

Mr. Wong Lit Chor, Alexis

Mr. Fung Oi Ip, Alfonso

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 G, 8/F., East Tower,
Shanghai Hi-Tech King World,
666 Beijing East Road, Huang Pu District,
Shanghai, PRC.

Shanghai Office

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

Principal Share Registrar and Transfer Office

The Bank of Bermuda Limited
Bank of Bermuda Building,
6 Front Street, Hamilton HM11,
Bermuda.

Hong Kong Branch Share Registrar and Transfer Office

Tricor Abacus Limited
26/F., Tesbury Centre,
28 Queen's Road East, Wanchai,
Hong Kong.

Auditor

Deloitte Touche Tohmatsu

Legal Advisors

Conyers Dill & Pearman

Principal Bankers

CITIC Ka Wah Bank
Hang Seng Bank

Corporate Websites

www.fortunetele.com
www.chinafortune.com
www.synergy-asia.com.hk

Stock Code

110

REVIEW AND OUTLOOK

Financial Review

The performance of the Group was significantly improved due to the successful restructuring of the national distribution business which incurred a substantial loss in last year. The fulfillment distribution business for Nokia Stores (“NS”) continues to be a core business of the Group in which the Group is appointed as the sole fulfillment distributor for NS in the People’s Republic of China (“PRC”). Because of the continuing improvement in the core business of the Group, the Group recorded a relatively small loss during the period.

The Group recorded a consolidated revenue during the period of HK\$1,026.4 million when compared to the previous period of HK\$1,587 million. The decrease in revenue was mainly attributable to the restructuring of the loss making national distribution business which had a significant contribution to the revenue in the previous period.

The gross profit amounted to HK\$26.6 million as compared to the gross loss of HK\$3.1 million in the previous period. The gross margin percentage also increased to 2.6% from — 0.2% in the previous period. As explained above, these improvements were mainly attributable to the restructuring of the loss making national distribution business.

The selling and distribution costs amounted to HK\$14.9 million when compared to the previous period of HK\$41.8 million. The reduction of 64% as compared with the previous period was mainly due to the decrease in the size of the workforce and the reduction in the advertising and promotional expenses upon the restructuring of the loss making national distribution business.

The administrative expenses together with the allowance for trade and other receivables, amounted to HK\$12.6 million, reduced by 60% when compared to the previous period of HK\$31.7 million. The substantial reduction was mainly attributable to the one-off share-based payment expenses for share options of HK\$17.3 million in the previous period.

The Group shared losses of HK\$1.7 million from the results of the associates during the period as compared to the losses in the previous period of HK\$0.5 million. Owing to the unsatisfactory performance in DW Mobile Technology Limited, being one of the associates, the Group had disposed of this company during the period, resulting in a small profit from the disposal. An impairment loss of HK\$13.3 million and a share of post acquisition loss of HK\$2 million from this company were charged to the consolidated income statement of the Group in last year.

The finance costs during the period were reduced to HK\$6.2 million, reduced by 56% as compared to the previous period of HK\$14 million which was mainly due to the substantial decrease in the level of bank borrowings in the Group.

As a result of the above, the Group reported a net loss of HK\$1.6 million during the period when compared to the previous period of HK\$84.8 million, which was due to the significant improvement made during the period.

The net asset value of the Group as at 30th June, 2008 amounted to HK\$259.9 million or HK\$0.7 per share when compared to HK\$255.1 million or HK\$0.68 per share as at 31st December, 2007. The basic deficit per share during the period was HK0.31 cent while the basic deficit per share was HK27.14 cents in the previous period.

As at 30th June, 2008, the Group's aggregate bank borrowings amounted to HK\$55 million when compared to HK\$120.2 million as at 31st December, 2007. The decrease in bank borrowings was mainly attributable to the intention of the Group to reduce its borrowing level. Owing to breaches in certain financial covenants, the bank loans were classified as short-term in accordance with the corresponding accounting standards. The Group has informed the relevant bankers and the applications for the waiver to comply with such covenants are still in progress. The Group is confident that its applications will ultimately reach a successful conclusion. The gearing ratio of the Group, defined as the ratio of the total long term liabilities to the shareholder's equity, was zero as the Group did not have any long term liability as at 30th June, 2008. The total bank deposits and cash balances amounted to HK\$87.1 million as at 30th June, 2008, of which HK\$30.2 million has been pledged to a bank.

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. The Group believes that its operation in the PRC will benefit from the recent upward appreciation of the Renminbi. It is the treasury policy of the Group to manage its foreign currency exposure whenever its financial impact is material to the Group.

The amount of inventories as at 30th June, 2008 was HK\$130.9 million, comparable to HK\$128.8 million as at 31st December, 2007. The inventory turnover period was 24 days for the six months ended 30th June, 2008 while that for the twelve months ended 31st December, 2007 was 47 days. The shortening of the inventory turnover period was mainly due to the strict policy in inventory control in the fulfillment distribution business for NS.

The amount of trade receivables as at 30th June, 2008 was HK\$36.9 million, comparable to HK\$36.1 million as at 31st December, 2007. 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 NS is mainly on cash basis which further reduces the credit risk of the Group. The Group constantly reviews the status of the trade receivables to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors of the Company consider that the credit risk of the Group is significantly reduced.

On 4th September, 2007, the Group and TeleChoice International Limited (“TeleChoice”), entered into an agreement to establish a subsidiary (the “Fulfillment Subsidiary”) to engage in the logistics and fulfillment business for NS in the PRC (the “Fulfillment Business”). TeleChoice injected HK\$50 million for 40% equity interest in the Fulfillment Subsidiary, while the Group injected HK\$25 million for 60% equity interest therein. At the same time, the Company granted a put option to TeleChoice pursuant to which TeleChoice can require the Company to purchase its entire 40% equity interest in the Fulfillment Subsidiary at a price of HK\$50 million during the period from 1st March, 2008 to 31st December, 2008. The put option liability, representing a host debt instrument with a not closely related embedded non-option derivative which is linked to the profitability of the Fulfillment Business, was recognised as other financial liabilities. The finance cost of HK\$4.8 million arising from these financial liabilities was recognised in the condensed consolidated income statement during the period.

As at 30th June, 2008, the Group had in total 226 employees as compared to 270 employees as at 31st December, 2007. 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 547 million subscribers to mobile phone services in the PRC as at the end of 2007, equivalent to a penetration rate of 41.6 users per 100 persons. As at the end of July 2008, the number of subscribers to mobile phone services has increased to 608 million, with a penetration rate of 45.6 users per 100 persons in the PRC. The low penetration rate in the rural market, where approximately 750 million of PRC's population resides, together with the forthcoming 3G services and the robust economic growth, mean that the PRC market still has a lot of untapped potential.

While there are continuing intense competitions among the big mobile phone manufacturers in the PRC, they are trying to cut the distribution layers by directly supplying to the provincial distributors and leading retailers with a view to increase their profitability. Because of this, leading vendors have developed multi-channel distribution models which include "national distribution", "provincial distribution", "direct to retail" and "direct to operator".

As one of the integrated fulfillment distributors in the PRC, the Group provides all necessary services, which include but not limited to transaction handling, credit financing, delivery, rebate execution, stock buffering and B2B system integration, etc. In return, the Group receives a contractual margin and various rebates. 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

After the complete transformation of the loss making national distribution business to the fulfillment distribution business for NS, the Group has made significant improvement during the period and recorded a small loss of HK\$1.6 million as compared to a loss of HK\$84.8 million in the previous period. The fulfillment distribution business for NS recorded significant growth during the period and its streamlined workforce further reduced the operating cost and hence the business risk of this business. The fulfillment distribution business for NS will continue to be a core business of the Group in view of the leading position of Nokia in the mobile phone market in the PRC. On the other hand, the business of the associates of the Group remained a challenge due to the intense competition in the market.

Prospect and Outlook

With a view to further diversify the business of the Group, in July 2007, the Group contracted to acquire approximately 40.8% equity interest in a mining company in the PRC (the "PRC Mining Company"). The PRC Mining Company has the right to conduct mining activities in a mining site which is located in Huangshi, southeastern Hubei. The mining site has a general mining area of approximately 0.62 square kilometers and the mineral resources of the mining site include Celestite, Zinc and Lead. In November 2007, the Group further contracted to acquire another 10% equity interest in the PRC Mining Company. Upon the completion of these two acquisitions, the Group believed that this business segment in natural resources will become another core business of the Group in the near future as demand for mineral resources will be considerable in view of the rapid growth of the PRC economy.

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, and the soon launching of the 3G services create 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 30th June, 2008, 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	50.51%
	Beneficial owner	280,000	0.08%
		<u>188,580,013</u>	<u>50.59%</u>

(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. 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
		3,750,000	3,750,000

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, 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.
3. 192,000,000 ordinary shares and HK\$64 million convertible bonds of the Company will be issued to Mr. Lau Siu Ying as part of the consideration on the completion of the acquisition of a 40.8% interest in a mining company in the People's Republic of China (the "PRC Mining Company") by the Group. Details of this transaction can be referred to the circular made by the Company on 31st December, 2007 and the latest announcement on 5th September, 2008.

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 30th June, 2008.

Share options

The Company adopted a share option scheme on 14th January, 2004 (the "Scheme") which was effective on 26th January, 2004 and will expire on 26th 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, suppliers, agents, customers, distributors, 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 30th June, 2008, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 9,782,000, representing 2.6% 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. 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			<u>2,750,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,750,000</u>
Category II - Employees							
Employees	7.5.2007	1.29	<u>3,158,000</u>	<u>—</u>	<u>—</u>	<u>(76,000)</u>	<u>3,082,000</u>
Category III - Consultants							
Consultants	7.5.2007	1.29	<u>3,950,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,950,000</u>
Total for all categories			<u><u>9,858,000</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>(76,000)</u></u>	<u><u>9,782,000</u></u>

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

The weighted average closing price of the shares of the Company immediately before the dates on which the share options were exercised was HK\$2.25.

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 30th June, 2008, 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) Beneficial owner	188,300,013	50.51%
		280,000	0.08%
		<u>188,580,013</u>	<u>50.59%</u>
Mr. Lee Wai, Timothy	Held by controlled entity (Note 2)	188,300,013	50.51%

(b) Share options

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

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.
4. 192,000,000 ordinary shares and HK\$64 million convertible bonds of the Company will be issued to Mr. Lau Siu Ying as part of the consideration on the completion of the acquisition of a 40.8% interest in the PRC Mining Company by the Group. Details of this transaction can be referred to the circular made by the Company on 31st December, 2007 and the latest announcement on 5th September, 2008.

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 30th June, 2008, 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 30th June, 2008.

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 consolidated interim financial results and the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30th June, 2008 together with the comparative figures set out below. These condensed consolidated interim financial statements have not been audited, but have been reviewed by the audit committee (the "Audit Committee") of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30th June,	
		2008	2007
	Notes	HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Revenue	3	1,026,388	1,587,023
Cost of sales		(999,826)	(1,590,089)
Gross profit (loss)		26,562	(3,066)
Other income		7,900	5,884
Selling and distribution costs		(14,905)	(41,820)
Administrative expenses			
– Share-based payment expenses		—	(17,262)
– Other administrative expenses		(12,316)	(11,593)
Allowance for trade and other receivables		(279)	(2,849)
Loss on disposal of held for sales		(107)	—
Profit on disposal of an associate		104	—
Share of results of associates		(1,687)	(473)
Finance costs	4	(6,224)	(13,953)
Loss before taxation	5	(952)	(85,132)
Income tax (expense) credit	6	(676)	340
Loss for the period		(1,628)	(84,792)
Attributable to:			
Equity holders of the parent		(1,152)	(84,792)
Minority interests		(476)	—
		(1,628)	(84,792)
Dividend	7	—	3,151
Loss per share - basic	8	(0.3cent)	(27.1cents)

CONDENSED CONSOLIDATED BALANCE SHEET

		As at	
		30th June, 2008	31st December, 2007
		HK\$'000	HK\$'000
	<i>Notes</i>	(unaudited)	(audited)
Non-Current Assets			
Plant and equipment		3,160	3,790
Goodwill		12,925	12,925
Investments in associates	9	12,886	14,561
Available-for-sale investment		918	918
Deposit paid for acquisition of a subsidiary		25,000	25,000
Other non-current assets		22,000	21,400
Club membership		1,116	600
		78,005	79,194
Current Assets			
Inventories		130,897	128,801
Trade and other receivables	10	144,369	137,505
Bills receivables	10	176	431
Amount due from a minority shareholder of a subsidiary		4,923	5,350
Pledged bank deposits		30,215	75,010
Bank balances and cash		56,904	82,891
		367,484	429,988
Asset classified as held for sale		—	11,800
		367,484	441,788

CONDENSED CONSOLIDATED BALANCE SHEET

		As at	
		30th June, 2008	31st December, 2007
		HK\$'000	HK\$'000
	Notes	(unaudited)	(audited)
Current Liabilities			
Trade and other payables	11	65,956	82,783
Amount due to a director		—	1,742
Amount due to an associate		500	500
Taxation payables		1,507	1,270
Bank borrowings	12	52,995	120,223
Bank overdrafts - secured	12	1,977	—
Other financial liabilities		57,933	53,145
		180,868	259,663
Liabilities associated with asset classified as held for sale		—	1,180
		180,868	260,843
Net Current Assets		186,616	180,945
Total Assets Less Current Liabilities		264,621	260,139
Capital and Reserves			
Share capital		37,279	37,279
Reserves		222,599	217,784
Equity attributable to equity holders of the parent		259,878	255,063
Minority interests		4,743	5,076
		264,621	260,139

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months end 30th June, 2008

	Attributable to equity holders of the parent										
	Share capital	Share premium	Share option reserve	Special reserve	Translation reserve	Statutory funds	Accumulated profits (losses)	Total	Share option reserve of a subsidiary	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2007	30,210	103,275	—	2,481	18,489	26,130	214,825	395,410	758	—	396,168
Issue of shares upon share subscription	4,000	66,800	—	—	—	—	—	70,800	—	—	70,800
Issue of shares upon acquisition of associates	900	15,030	—	—	—	—	—	15,930	—	—	15,930
Issue of shares upon exercise of share options	400	4,760	—	—	—	—	—	5,160	—	—	5,160
Costs attributable to issue of shares	—	(20,920)	—	—	—	—	—	(20,920)	—	—	(20,920)
Recognition of equity-settled share-based payment expenses	—	—	17,262	—	—	—	—	17,262	—	—	17,262
Transfer of reserve upon exercise of share options	—	2,443	(2,443)	—	—	—	—	—	—	—	—
Loss for the period	—	—	—	—	—	—	(84,792)	(84,792)	—	—	(84,792)
Dividend payable	—	—	—	—	—	—	(3,151)	(3,151)	—	—	(3,151)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months end 30th June, 2008

	Attributable to equity holders of the parent										
	Share capital	Share premium	Share option reserve	Special reserve	Translation reserve	Statutory funds	Accumulated profits (losses)	Total	Share option reserve of a subsidiary	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 30th June, 2007	35,510	171,388	14,819	2,481	18,489	26,130	126,882	395,699	758	—	396,457
Issue of shares upon acquisition of associates	600	6,000	—	—	—	—	—	6,600	—	—	6,600
Issue of shares upon exercise of share options	369	4,391	—	—	—	—	—	4,760	—	—	4,760
Costs attributable to issue of shares	—	1,496	—	—	—	—	—	1,496	—	—	1,496
Arising on acquisition of a subsidiary	800	10,320	—	—	—	—	—	11,120	—	5,055	16,175
Recognition of equity-settled share-based payment expenses	—	—	(2,446)	—	—	—	—	(2,446)	—	—	(2,446)
Transfer of reserve upon exercise of share options	—	1,588	(1,588)	—	—	—	—	—	—	—	—
Transfer of reserve upon expiration/forfeiture of share options	—	—	(5,617)	—	—	—	6,375	758	(758)	—	—
Exchange differences arising on translation of functional currency to presentation currency	—	—	—	—	18,809	—	—	18,809	—	189	18,998
Share of reserves of associates	—	—	—	—	154	—	—	154	—	—	154
Loss for the period	—	—	—	—	—	—	(181,887)	(181,887)	—	(168)	(182,055)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months end 30th June, 2008

	Attributable to equity holders of the parent										
	Share capital	Share premium	Share option reserve	Special reserve	Translation reserve	Statutory funds	Accumulated profits (losses)	Total	Share option reserve of a subsidiary	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31st December, 2007 and 1st January, 2008	37,279	195,183	5,168	2,481	37,452	26,130	(48,630)	255,063	—	5,076	260,139
Transfer to PRC statutory funds	—	—	—	—	—	4,002	(4,002)	—	—	—	—
Transfer of reserve upon expiration /forfeiture of share options	—	—	(40)	—	—	—	40	—	—	—	—
Exchange differences arising on translation of functional currency to presentation currency	—	—	—	—	6,059	—	—	6,059	—	143	6,202
Share of reserves of associates	—	—	—	—	(92)	—	—	(92)	—	—	(92)
Loss for the period	—	—	—	—	—	—	(1,152)	(1,152)	—	(476)	(1,628)
At 30th June, 2008	<u>37,279</u>	<u>195,183</u>	<u>5,128</u>	<u>2,481</u>	<u>43,419</u>	<u>30,132</u>	<u>(53,744)</u>	<u>259,878</u>	<u>—</u>	<u>4,743</u>	<u>264,621</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30th June,	
	2008	2007
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash (used in) from operating activities	(14,210)	252,669
Net cash from (used in) investing activities	56,199	(10,358)
Net cash used in financing activities	(70,973)	(132,419)
	<hr/>	<hr/>
Net (decrease) increase in cash and cash equivalents	(28,984)	109,892
Cash and cash equivalents at beginning of the period	82,891	49,390
Effect of foreign exchange rate changes	1,020	—
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	54,927	159,282
	<hr/> <hr/>	<hr/> <hr/>
Represented by:		
Bank balances and cash	56,904	159,282
Bank overdrafts	(1,977)	—
	<hr/>	<hr/>
	54,927	159,282
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The unaudited condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. Principal accounting policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

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 31st December, 2007.

In the current period, the Group has applied, for the first time, the following new interpretations ("new Interpretations") issued by the HKICPA, which are effective for the Group's financial year beginning on 1st January, 2008.

HK(IFRIC) — Int 11	HKFRS 2 — Group and Treasury Share Transactions
HK(IFRIC) — Int 12	Service Concession Arrangements
HK(IFRIC) — Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these new Interpretations had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

3. Segment information

Revenue represents the net amounts received and receivable for goods sold and services provided by the Group to outside customers during the period.

No segment analysis is provided as substantially all the Group's revenue and contribution to loss for the period were derived from the distribution and trading of mobile phones. In addition, no geographical market analysis is provided as substantially all the Group's revenue and contribution to the loss for the period were derived from the PRC and substantially all the assets are located in the PRC.

4. Finance costs

	Six months ended 30th June,	
	2008	2007
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interests on:		
Bank borrowings wholly repayable within five years	1,436	13,953
Other financial liabilities	4,788	—
	<u>6,224</u>	<u>13,953</u>

5. Loss before taxation

	Six months ended 30th June,	
	2008	2007
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Loss before taxation has been arrived at after charging:		
Auditor's remuneration	1,144	590
Depreciation on owned assets	765	247
Staff costs (excluding share-based payment expenses)	11,503	27,820
Allowance for trade and other receivables		
Additional impairment losses	4,500	2,849
Reversals due to amounts recovered	(4,221)	—
	<u>279</u>	<u>2,849</u>

6. Income tax expense (credit)

	Six months ended 30th June,	
	2008	2007
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
The charge comprises		
Hong Kong Profits Tax calculated at 16.5% (2007: 17.5%)	242	—
PRC Enterprise Income Tax	434	161
	<u>676</u>	<u>161</u>
Deferred tax	<u>—</u>	<u>(501)</u>
	<u>676</u>	<u>(340)</u>

Hong Kong Profits Tax has been provided for the six months ended 30th June, 2008 (2007: nil) as the Group had estimated assessable profits in Hong Kong.

PRC Enterprise Income Tax represents tax charge on the assessable profits of the Company's subsidiaries, Fortune (Shanghai) International Trading Co., Ltd. ("Fortune Shanghai") and 上海遠嘉國際貿易有限公司 ("Shanghai Yuanjia") and 珠海市雷鳴達通訊設備有限公司 ("Zhuhai Reminda").

Fortune Shanghai and Shanghai Yuanjia are established in Shanghai Waigaoqiao Free Trade Zone, the PRC and are entitled to a preferential PRC Enterprise Income Tax rate of 15% which is granted to companies established in Shanghai Waigaoqiao Free Trade Zone. Zhuhai Reminda is established in Zhuhai Special Economic Zone and is entitled to a preferential PRC Enterprise Income Tax rate of 15%.

On 16th March, 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6th December, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 15% to 25% for Fortune Shanghai and Shanghai Yuanjia from 1st January, 2008 onwards. For Zhuhai Reminda, the tax rate will ratchet up to 18%, 22%, 24%, 25% in 2008 to 2011 respectively.

7. Dividend

Six months ended 30th June,	
2008	2007
HK\$'000	HK\$'000
(unaudited)	(unaudited)

Final dividend recognised as distribution:

No dividend for the year ended 31st December, 2007
 (2007: HK1 cent per share for the year ended
 31st December, 2006)

—	3,151
<u> </u>	<u> </u>

No final dividend has been proposed for the year ended 31st December, 2007. The final dividend of HK1 cent per share for the year ended 31st December, 2006 was paid to shareholders in 2007.

8. Loss per share

The calculation of the basic loss per share is based on the loss attributable to equity holders of the parent for the six months ended 30th June, 2008 of HK\$1,152,000 (2007: loss of HK\$84,792,000) and on 372,790,000 shares (2007: 312,433,333 weighted average number of ordinary shares) in issue during the period.

No diluted loss per share is presented for the period ended 30th June, 2008 as the exercise of the Company's outstanding share options for the period ended 30th June, 2008 would result in a decrease in loss per share.

9. Investments in associates

	30th June, 2008	31st December, 2007
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Cost of investment in unlisted associates less impairment loss	14,561	16,532
Share of post-acquisition reserves	(1,675)	(1,971)
	<u>12,886</u>	<u>14,561</u>

The Company directly holds the interest in DW Mobile Technology Limited, which was disposed of during the period ended 30th June, 2008.

10. Trade, bills and other receivables

	30th June, 2008	31st December, 2007
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Trade receivables	95,077	91,502
Less: accumulated allowance	(58,187)	(55,395)
	<u>36,890</u>	<u>36,107</u>
Value-added-tax receivables	8,240	13,748
Rebates receivables	22,834	33,936
Other receivables and deposits	76,405	53,714
	<u>144,369</u>	<u>137,505</u>
Bills receivables	176	431
	<u>144,545</u>	<u>137,936</u>

The Group allows credit period ranged from 30 to 90 days to its trade customers. The following is an aged analysis of the trade and bills receivables (net of allowance) at the balance sheet date:

	30th June, 2008 HK\$'000 (unaudited)	31st December, 2007 HK\$'000 (audited)
Trade and bills receivables:		
0 to 30 days	26,185	21,019
31 to 90 days	2,573	9,964
Over 90 days	8,308	5,555
	<hr/> 37,066 <hr/>	<hr/> 36,538 <hr/>

11. Trade and other payables

The following is an aged analysis of the trade payables at the balance sheet date:

	30th June, 2008 HK\$'000 (unaudited)	31st December, 2007 HK\$'000 (audited)
Trade payables:		
0 to 30 days	31,530	34,385
31 to 90 days	3,980	2,311
Over 90 days	4,715	7,345
	<hr/> 40,225 <hr/>	<hr/> 44,041 <hr/>
Other payables and accruals	25,731	38,742
	<hr/> 65,956 <hr/>	<hr/> 82,783 <hr/>

12. Bank borrowings

	30th June, 2008 HK\$'000 (unaudited)	31st December, 2007 HK\$'000 (audited)
Bank borrowings comprise:		
Bank loans	52,995	120,223
Bank overdrafts	1,977	—
	54,972	120,223
Secured	47,472	112,223
Unsecured	7,500	8,000
	54,972	120,223

At the balance sheet date, the bank borrowings of the Group are repayable on demand or within one year.

13. Contingent liabilities

A subsidiary of the Group is a defendant in a legal action brought by a Taiwanese supplier for a trade debt of HK\$4.6 million plus overdue interest and related legal expenses of HK\$0.6 million in relation to goods purchased from the supplier since August 2006. The trade payable of HK\$4.6 million has been recognised in the condensed consolidated financial statements. However, in the opinion of the directors, it is not probable to pay the interest and legal expenses and therefore, no provision for any overdue interest and legal expenses has been made in the condensed consolidated financial statements.

By Order of the Board

China Fortune Holdings Limited

Lau Siu Ying

Chairman

Hong Kong, 11th September, 2008

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