

# CHINA FORTUNE INVESTMENTS

中國幸福投資

Half-Year Report 2012



中國幸福投資(控股)有限公司  
China Fortune Investments (Holding) Limited

CHINA FORTUNE INVESTMENTS (HOLDING) LIMITED  
(Incorporated in the Cayman Islands with Limited Liability)  
(Stock code: 8116)

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

The GEM has been positioned as a market designed to accommodate companies to which a high investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of the GEM mean that it is a market more suited to professional and other sophisticated investors.

**Given the emerging nature of companies listed on the GEM, there is a risk that securities traded on the GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on the GEM.**

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## **FINANCIAL HIGHLIGHT**

- Recorded an unaudited turnover of approximately HK\$111 million for the six months ended 30 June 2012, representing an approximately 2% slightly increase over the six months period ended of the last year;
- Recorded an unaudited loss attributable to the equity holders of the Company amounted to approximately HK\$44 million, for the six months ended 30 June 2012;
- The Board do not recommend the payment of an interim dividend for the six months ended 30 June 2012.

The board of directors (the “Board”) of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2012, together with the unaudited comparative figures for the corresponding period in last year, are as follows:

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	NOTES	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
<b>Continuing Operations</b>					
Turnover	2	103,795	51,928	111,082	108,615
Cost of sales and services		(60,556)	(48,175)	(65,415)	(64,704)
Gross profit		43,239	3,753	45,667	43,911
Other income	2	169	2,829	3,596	2,873
Distribution expenses		(11,642)	(3,578)	(14,405)	(7,614)
Administrative expenses		(16,292)	(6,826)	(63,469)	(23,741)
Realised loss on disposal of financial assets held for trading		-	(2,889)	-	(2,783)
Unrealised loss on financial assets held for trading		(792)	(722)	(1,196)	(2,270)
(Loss)/profit from operations		14,682	(7,433)	(29,807)	10,376
Finance costs		(3,910)	(1,646)	(5,599)	(3,279)
(Loss)/profit before tax	4	10,772	(9,079)	(35,406)	7,097
Income tax expenses	5	(2,661)	-	(2,661)	-
(Loss)/profit for the period		8,111	(9,079)	(38,067)	7,097
<b>Other comprehensive income:</b>					
Net gain arising on revaluation of available- for-sale investment during the period		-	-	69	-
Exchange differences on translation of financial statements of foreign operations		(1,583)	1,783	(2,298)	5,779
Other comprehensive (expenses)/income for the period, net of tax		(1,583)	1,783	(2,229)	5,779
Total comprehensive income/(expenses) for the period		6,528	(7,296)	(40,296)	12,876

	NOTES	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
<b>(Loss)/profit attributable to:</b>					
Shareholders of the Company		654	(8,077)	(44,387)	8,761
Non-controlling interests		7,457	(1,002)	6,320	(1,664)
		<u>8,111</u>	<u>(9,079)</u>	<u>(38,067)</u>	<u>7,097</u>
<b>Total comprehensive (expenses)/income attributable to:</b>					
Shareholders of the Company		(929)	(6,294)	(46,616)	14,540
Non-controlling interests		7,457	(1,002)	6,320	(1,664)
		<u>6,528</u>	<u>(7,296)</u>	<u>(40,296)</u>	<u>12,876</u>
<b>(Loss)/profit per share</b>	6				
Basic ( <i>HK cents per share</i> )		<u>0.01</u>	<u>(0.07)</u>	<u>(0.37)</u>	<u>0.08</u>
Diluted ( <i>HK cents per share</i> )		<u>0.06</u>	<u>(0.03)</u>	<u>(0.37)</u>	<u>0.07</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

		Unaudited As at 30 June 2012 <i>HK\$'000</i>	Audited As at 31 December 2011 <i>HK\$'000</i>
	<i>NOTES</i>		
<b>Non-current assets</b>			
Property, plant and equipment	7	24,569	18,685
Mining right		10,000	10,000
Goodwill		953,390	393,079
Other intangible assets	8	191,052	192,726
Available-for-sales investments		16,930	16,860
		<u>1,195,941</u>	<u>631,350</u>
<b>Current assets</b>			
Inventories		108,648	17,251
Trade receivables	9	165,575	175,124
Other receivables, deposits and prepayments		277,152	107,026
Financial assets held for trading		4,605	5,801
Tax recoverable		320	3
Cash and bank balances		32,997	80,146
		<u>589,297</u>	<u>385,351</u>
<b>Current liabilities</b>			
Trade payables	10	81,245	65,310
Accruals and other payables		161,147	34,931
Purchase consideration payable		312,000	-
Bank borrowings		12,609	-
Deposit received		3,532	2,179
Amounts due to related companies		16,680	15,321
Tax payable		2,919	143
		<u>590,132</u>	<u>117,884</u>
<b>Net current (liabilities)/assets</b>		<u>(835)</u>	<u>267,467</u>
<b>Total assets less current liabilities</b>		<u>1,195,106</u>	<u>898,817</u>

		<b>Unaudited</b>	Audited
		<b>As at</b>	As at
		<b>30 June</b>	31 December
		<b>2012</b>	2011
	<i>NOTES</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
<b>Capital and reserves</b>			
Share capital	11	<b>147,175</b>	112,725
Reserves		<b>691,848</b>	562,829
Equity attributable to shareholders of the Company		<b>839,023</b>	675,554
Non-controlling interests		<b>31,201</b>	24,881
<b>Total equity</b>		<b>870,224</b>	700,435
<b>Non-current liabilities</b>			
Bank borrowings		<b>2,195</b>	–
Convertible bonds	12	<b>322,687</b>	198,382
		<b>324,882</b>	198,382
		<b>1,195,106</b>	898,817

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2012

	Unaudited Six months ended 30 June	
	2012 HK\$'000	2011 HK\$'000
<b>Net cash outflow from operating activities</b>	<b>(65,486)</b>	(40,162)
<b>Net cash outflow from investing activities</b>	<b>(86,762)</b>	(47,294)
<b>Net cash inflow from financing activities</b>	<b>107,397</b>	–
<b>Decrease in cash and cash equivalents</b>	<b>(44,851)</b>	(87,456)
<b>Effect of foreign exchange rate changes</b>	<b>(2,298)</b>	5,780
<b>Cash and cash equivalents at the beginning of the period</b>	<b>80,146</b>	152,027
<b>Cash and cash equivalents at the end of the period</b>	<b>32,997</b>	70,351
<b>Analysis of balances of cash and cash equivalents:</b>		
Cash and bank balances	32,997	70,351
Less: pledged bank deposits	–	–
<b>Cash and cash equivalents at the end of the period</b>	<b>32,997</b>	70,351



# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012 (unaudited)

	Share Capital	Share Premium	Merger Reserve	General Reserve	Share-based Compensation Reserve	Convertible Bonds Equity Reserve	Investments Revaluation Reserve	Exchange Currency Translations Reserves	Accumulated Losses	Attributable to Shareholders of the Company	Non-Controlling Interest	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Note (i))	(Note (i))								
Six months ended 30 June 2011												
At 1 January 2011	112,725	983,095	(46,815)	11,512	57,173	22,999	-	6,636	(233,192)	914,133	1,233	915,366
Transfer to general reserve	-	-	-	91	-	-	-	-	(91)	-	-	-
Total comprehensive income attributable to shareholders	-	-	-	-	-	-	-	5,779	8,761	14,540	(1,664)	12,876
At 30 June 2011	112,725	983,095	(46,815)	11,603	57,173	22,999	-	12,415	(224,522)	928,673	(431)	928,242
Six months ended 30 June 2012												
At 1 January 2012	112,725	983,095	(46,815)	24,338	57,173	22,999	94	24,574	(502,629)	675,554	24,881	700,435
Recognition of equity-settled share-based payments	-	-	-	-	21,360	-	-	-	-	21,360	-	21,360
Lapse of equity-settled share-based payments	-	-	-	-	(1,237)	-	-	-	1,237	-	-	-
Recognition of equity component of convertible bonds	-	-	-	-	-	57,616	-	-	-	57,616	-	57,616
Exercise of convertible bonds	34,450	114,883	-	-	-	(18,224)	-	-	-	131,109	-	131,109
Total comprehensive income attributable to shareholders	-	-	-	-	-	-	69	(2,286)	(44,387)	(46,616)	6,320	(40,296)
At 30 June 2012	147,175	1,097,978	(46,815)	24,338	77,296	62,991	163	22,276	(545,779)	839,023	31,201	870,224

## Notes:

- (i) The general reserve and enterprise expansion fund are set up by subsidiaries established and operated in the People's Republic of China ("PRC") by way of appropriation from the profit after taxation in accordance with the relevant laws and regulations in the PRC. The rate of appropriation of the general reserve and enterprise expansion fund is subject to the decision of the board of directors of the PRC subsidiaries, but the minimum appropriation rate for the general reserve is 10% of the profit after taxation for each year, until when the accumulated balance reaches 50% of the total registered capital of the subsidiary. Pursuant to the relevant laws and regulations of the PRC, if approvals are obtained from the relevant government authorities, the general reserve can be used in setting off accumulated losses or to increase the capital, and the enterprise expansion fund can be used to increase the capital.
- (ii) Merger reserve represents the difference between the nominal value of the shares of subsidiaries acquired and the nominal value of the shares issued by the Company as consideration thereof pursuant to the reorganisation.

NOTES:

**1. Basis of preparation and principal accounting policies**

The unaudited consolidated results have been prepared in accordance with accounting principles generally accepted in Hong Kong, Accounting Standards and Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of the GEM Listing Rules. They have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair value.

The accounting policies and method of computation used in preparing the unaudited consolidated results are consistent with those used in the audited financial statements for the year ended 31 December 2011. The condensed consolidated results have not been audited by the Company’s auditors, but have been reviewed by the Company’s audit committee.

In the current year, the Company has not early applied the following new standards, amendments and interpretations issued by the HKICPA, which are or have become effective.

HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters <sup>1</sup>
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets <sup>1</sup> Disclosures – Offsetting Financial Assets and Financial Liabilities <sup>1</sup> Mandatory Effective Date of HKFRS 9 and Transition Disclosures <sup>6</sup>
HKFRS 9 (Revised)	Financial Instruments <sup>6</sup>
HKFRS 10	Consolidated Financial Statements <sup>4</sup>
HKFRS 11	Joint Arrangements <sup>4</sup>
HKFRS 12	Disclosures of Interests in Other Entities <sup>4</sup>
HKFRS 13	Fair Value Measurement <sup>4</sup>
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income <sup>3</sup>
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets <sup>2</sup>
HKAS 19 (as revised in 2011)	Employee Benefits <sup>4</sup>
HKAS 27 (as revised in 2011)	Separate Financial Statements <sup>4</sup>
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures <sup>4</sup>
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities <sup>5</sup>
HK (IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2011

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2012

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2012

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2013

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2014

<sup>6</sup> Effective for annual periods beginning on or after 1 January 2015

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The directors of the Company anticipate that the application of these new standard, amendment or interpretations will have no material impact on the results and the financial position of the Company.

## 2. Turnover and other revenue

The Group is principally engaged in provision of healthcare information technology ("HIT") services, diamond retail business, mining business and radio trunking systems integration in PRC. Revenues recognised are as follows:

	<b>(Unaudited) Three months ended 30 June</b>		<b>(Unaudited) Six months ended 30 June</b>	
	<b>2012 HK\$'000</b>	2011 HK\$'000	<b>2012 HK\$'000</b>	2011 HK\$'000
Turnover				
Provision of HIT Services	<b>30,323</b>	51,928	<b>37,610</b>	108,615
Diamond retail business	<b>73,472</b>	–	<b>73,472</b>	–
Mining	–	–	–	–
Sales of radio trunking systems integration	–	–	–	–
	<b>103,795</b>	51,928	<b>111,082</b>	108,615
Other revenues				
Gain on disposal of fixed asset	–	–	<b>3,400</b>	–
Interest income	<b>36</b>	60	<b>63</b>	101
Others	<b>133</b>	2,769	<b>133</b>	2,772
	<b>169</b>	2,829	<b>3,596</b>	2,873
Total revenues	<b>103,964</b>	54,757	<b>114,678</b>	111,488

### 3. Segment information

All of the segment revenue reported below is from external customers.

No geographical segment information is presented as secondary segment information as substantially all the Group's turnover and contribution to operating results were carried out in the PRC. An analysis of the Group's segment revenue and result by principal activities for the period is as follows:

#### *Segment turnover and results*

**For the six months ended 30 June 2012 (Unaudited):**

	Diamond business		Provision of HIT Services		Mining of mineral resources		Sales of radio trunking systems integration		Consolidated total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>TURNOVER</b>										
Revenue	73,472	N/A	37,610	108,615	-	-	-	-	111,082	108,615
<b>RESULTS</b>										
Segment results	7,841	N/A	(12,033)	17,289	(1,064)	(340)	(85)	(883)	(5,341)	16,066
Other income									3,518	2,873
Unallocated corporate expenses									(27,984)	(8,563)
(Loss)/profit from operations									(29,807)	10,376
Finance costs									(5,599)	(3,279)
(Loss)/profit before tax									(35,406)	7,097
Income tax expenses									(2,661)	-
(Loss)/profit after tax									(38,067)	7,097

#### 4. (Loss)/profit before tax

	Three months ended 30 June		Six months ended 30 June	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
(Loss)/profit before tax has been arrived after charging:				
Cost of sales and services	60,556	48,175	65,415	64,704
Amortisation of other intangible assets	5,821	1,125	7,652	2,190
Depreciation of property, plant and equipment	3,487	2,122	5,563	4,274
Research and development costs	368	1,193	790	1,225
Operating lease rental in respect of rented premises	3,647	1,789	5,128	2,921
Staff costs, including directors' emoluments:				
– Basic salaries and other benefits	5,804	4,061	9,541	8,531
– Equity-settled share-based payments	–	–	21,360	–

#### 5. Income tax expense

The amount of taxation charged to the consolidated statement of comprehensive income represents:

	Notes	Three months ended 30 June		Six months ended 30 June	
		2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Hong Kong profits tax	(i)	–	–	–	–
Overseas taxation	(ii)	2,661	–	2,661	–
		<b>2,661</b>	–	<b>2,661</b>	–

- (i) No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong for the relevant periods.
- (ii) Overseas taxation represents tax charges on the assessable profits of certain subsidiaries operating in the PRC calculated at the applicable rates.

6. **(Loss)/profit per share**

The calculation of the basic and diluted (loss)/profit per share attributable to shareholders of the Company is based on the following data:

	<b>(Unaudited)</b>	
	<b>For the six months</b>	
	<b>ended 30 June</b>	
	<b>2012</b>	<b>2011</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>(Loss)/profit for the period</b>		
(Loss)/profit for the period attributable to owners of the Company	<b>(44,387)</b>	8,761
Effect of dilutive potential ordinary share:		
Interest on convertible bonds (net of tax)	<u>—</u>	<u>2,925</u>
(Loss)/profit for the purpose of diluted (loss)/profit per share	<b><u>(44,387)</u></b>	<b><u>11,686</u></b>
	<b>(Unaudited)</b>	
	<b>As at 30 June</b>	
	<b>2012</b>	<b>2011</b>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic (loss)/profit per share	<b>11,971,895,181</b>	10,986,984,230
Effect of dilutive potential ordinary share*:		
Convertible bonds and share options	<u>—</u>	<u>5,054,940,932</u>
Weighted average number of ordinary shares for the purpose of diluted (loss)/profit per share	<b><u>11,971,895,181</u></b>	<b><u>16,041,925,162</u></b>

\* Effect of conversion of convertible bonds would result on anti-dilute effect in the calculation of diluted loss per share. Therefore, the basic and diluted loss per share in 2012 is the same. Effect of dilutive potential ordinary shares in respect of outstanding share options are anti-dilutive for both periods.

## 7. Property, plant and equipment

	<b>Unaudited</b>	Audited
	<b>30 June</b>	31 December
	<b>2012</b>	2011
	<b>HK\$'000</b>	<b>HK\$'000</b>
Net book value as at 1 January	<b>18,685</b>	64,527
Additions	<b>3,607</b>	591
Depreciation	<b>(5,563)</b>	(10,274)
Acquisition through business combination	<b>7,848</b>	-
Elimination upon disposal	<b>(8)</b>	(39,292)
Exchange rate adjustment	<b>-</b>	3,133
Net book value, end of the period/year	<b>24,569</b>	18,685

## 8. Intangible asset

	<b>Unaudited</b>	Audited
	<b>30 June</b>	31 December
	<b>2012</b>	2011
	<b>HK\$'000</b>	<b>HK\$'000</b>
Computer software	<b>8,814</b>	13,188
Technical know-how	<b>33,065</b>	32,661
Other intangible assets under development	<b>149,173</b>	146,877
	<b>191,052</b>	192,726

Intangible assets are stated at cost less accumulated amortisation and any impairment losses. Amortisation is provided on a systematic basis over their estimated useful lives.

## 9. Trade receivables

The ageing analysis of trade receivables of the Group is as follows:

	0 to 30 days <i>HK\$'000</i>	31 to 60 days <i>HK\$'000</i>	61 to 90 days <i>HK\$'000</i>	91 to 180 days <i>HK\$'000</i>	Over 180 days <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 30 June 2012	4,790	24,877	976	50,478	84,454	165,575
As at 31 December 2011	14,938	61,871	48,236	10,267	39,812	175,124

## 10. Trade payables

The ageing analysis of trade payables of the Group is as follows:

	0 to 30 days <i>HK\$'000</i>	31 to 60 days <i>HK\$'000</i>	61 to 90 days <i>HK\$'000</i>	91 to 180 days <i>HK\$'000</i>	Over 180 days <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 30 June 2012	31,384	1,235	4,452	–	44,174	81,245
As at 31 December 2011	–	15,303	–	42,393	7,614	65,310

## 11. Share capital

	The Company			
	30 June 2012		31 December 2011	
	Number of share of HK\$0.01 each	Nominal Value <i>HK\$</i>	Number of share of HK\$0.01 each	Nominal Value <i>HK\$</i>
Authorised:				
Ordinary shares	50,000,000,000	500,000,000	50,000,000,000	500,000,000
Issued and fully paid:				
At 1 January	11,272,498,882	112,724,989	11,272,498,882	112,724,989
Exercise of convertible bonds	3,444,997,340	34,449,973	–	–
At 30 June	14,717,496,222	147,174,962	11,272,498,882	112,724,989



## 12. Convertible bonds

On 8 January 2009, the Group issued convertible bonds with an aggregate principal amount of HK\$465 million (the "CB I") due in 2014 with conversion price of HK\$0.04 per share to acquire 100% equity interests in Super Surplus Trading Limited.

In the year 2009 and 2010, the CB I were converted into ordinary shares with aggregate principal amounts of HK\$262,802,000 at a conversion price of HK\$0.04 per conversion share. There are HK\$96,983,000 conversion during the six months ended 30 June 2012.

The CB I do not bear any interest. The effective interest rate of liability is 3.44%. The maturity date is on the fifth anniversary of the date of issue of the CB I.

On 19 April 2012, the Group issued convertible bonds with an aggregate principal amount of HK\$100 million ("CB II") due in 2017 with conversion price of HK\$0.049 per share to use the net proceeds as to up to HK\$80 million to finance the acquisition of diamond retail business and the remaining for the Group's general working capital.

For the six months ended 30 June 2012, the CB II were converted into ordinary shares with aggregate principal amounts of HK\$50,000,000 at a conversion price of HK\$0.049 per conversion share.

The CB II do not bear any interest. The effective interest rate of liability is 4.17%. The maturity dates are on the fifth anniversary of the date of issue of the CB II.

On 11 May 2012, the Group issued convertible bonds with aggregate amount of HK\$208 million (the "CB III") due in 2017 with conversion price of HK\$0.049 per share to acquire 100% equity interest in Million Zone Holdings Limited. For the six months ended 30 June 2012, no ordinary shares will be converted for the CB III.

The CB III do not bear any interest. The effective interest rate of liability is 5.79%. The maturity date is on fifth anniversary of the date of issue of the CB III.

The Group may redeem the CB I, II & III at 105% of the principal outstanding amount at any time from the date of issue to the maturity date. Any CB I, II, III outstanding on the maturity date shall be redeemed by the Company at 105% of the outstanding principal amount.

## 12. Convertible bonds (continued)

The movement of liabilities component of the Convertible Bonds for the year is set out below:

	THE GROUP AND THE COMPANY		
	CB I	CB II	CB III
	HK\$'000	HK\$'000	HK\$'000
Proceeds of issue	465,000	100,000	208,000
Equity component	<u>(52,898)</u>	<u>(14,386)</u>	<u>(43,230)</u>
Liability component at date of issue	412,102	85,614	164,770
Interest charged	13,344	-	-
Converted into ordinary shares	<u>(227,064)</u>	<u>-</u>	<u>-</u>
Non-current liability component at 31 December 2011	198,382	-	-
Imputed finance cost	2,897	580	1,555
Converted into ordinary shares	<u>(87,422)</u>	<u>(43,689)</u>	<u>-</u>
Non-current liabilities component as at 30 June 2012	<u>113,857</u>	<u>42,505</u>	<u>166,325</u>

## 13. Acquisition of subsidiaries

On 11 May 2012, the Group acquired 100% equity interest of Million Zone Holdings Limited (the "Million Zone") and its subsidiaries (collectively refer as the "Million Zone Group") for a consideration of HK\$600,000,000.

The net assets acquired in these transactions are as follows:-

	<b>Unaudited 2012 HK\$'000</b>
Net assets acquired	
Property, plant and equipment ( <i>Note 7</i> )	7,848
Trade receivables	48
Deposits, prepayments and other receivables	60,541
Inventories	69,771
Cash and cash equivalents	2,760
Bank borrowings	(7,407)
Accruals and other payables	(91,240)
Tax payables	<u>(2,632)</u>
	39,689
Goodwill	<u>560,311</u>
Total Consideration	<u>600,000</u>

### 13. Acquisition of subsidiaries (continued)

**Unaudited  
2012**

HK\$'000

Consideration satisfied by:

Cash paid	80,000
Convertible bonds	208,000
Fair value of contingent consideration	
– Convertible bonds*	312,000
	<hr/>
	600,000
	<hr/>

Net cash outflow arising on acquisition:

Consideration paid in cash	(80,000)
Cash and cash equivalent balances acquired	2,760
	<hr/>
	(77,240)
	<hr/>

\* Convertible bonds will be issued after the Company has received the audited accounts of Million Zone Group and is satisfied that the guaranteed profit of HK\$70 million for the relevant year as been met, the company shall issue to the vendors HK\$312 million convertible bonds in each year ending 31 December 2013 respectively.

### 14. Dividend

The Board of the Company does not recommend the payment of an interim dividend throughout the six months ended 30 June 2012.

### 15. Charge on group's assets

As at 30 June 2012, the Group's investments in financial assets held for trading with carrying value amounting to HK\$4.6 million were pledged to brokers to secure margin financing provided to the Group. Saving as disclosed above, no other group assets were charged or pledged to secure any loans or borrowings.

### 16. Comparative figures

Certain comparative figures have been reclassified to conform with current year's presentation.

## **BUSINESS REVIEW AND OUTLOOK**

### **Diamonds and gemstone retail business in China**

On 20 January 2012, the Group agreed to acquire all of the issued share capital of Million Zone Holdings Limited and its subsidiaries from the Vendors at the consideration of HK\$600,000,000. Million Zone is mainly engaged in the retail business of diamonds, jades as well as other gemstone and related jewellery through Beijing City-In-Love Market Limited (北京全城熱戀商場有限公司) (being a principal operating company of Million Zone in Beijing, China). This acquisition was smoothly completed on 11 May 2012. Accordingly, the Directors believe that there will be rising consumer demand for quality goods and increasing consumption desire for luxury goods in Mainland China and the prospects of diamonds will remain positive in the next few years.

City-In-Love positions itself as a distributor by asset-light operation in the diamonds retail industry. City-In-Love acquires diamond merchandise through low margin deposits and credit period with the ultimate sales of all diamonds at its proprietary hypermarkets, thereby able to achieve an ultra-low inventory level. City-In-Love has demonstrated its advantages as a distributor in such aspects in purchasing, products update and settlement with suppliers, including extensive merchandise sources, low purchase price, relatively low liquidity requirements and relatively high gross margin.

#### ***I. Purchases***

City-In-Love has established a global loose diamonds supply system and conducted strategic co-operation with over 20 suppliers. The suppliers' merchandise source is from the major diamonds production countries around the world like India, Japan, Israel and the United States. Through the globalization of the supply system and the strategic co-operation with suppliers, City-In-Love has achieved its price leading advantages in the industry and is able to meet the demand for diamonds at all levels and at the same time secure a stable supply.

Beijing City-In-Love Market Limited innovates the revolutionary purchase model of "Deposit-Leverage-Consignment" in the diamonds industry, i.e. purchases diamond merchandise through low margin deposits, sells all the diamonds in its own distribution channels and undertakes to the suppliers that they can exchange the consignment merchandise at any time.

## **II. Sales**

The diamond jewellery sold by City-In-Love is provided with NGTC or GIA certificates to guarantee the quality of the jewellery products sold. In this aspect, product certification provides the City-In-Love jewellery products with quality assurance which enables the consumers to buy the merchandise with confidence.

### **1. Sales of loose diamonds**

City-In-Love adopts the sales model of selling diamonds based on Rapaport Diamond Report which is pricing separately with rings, and transformed the traditional sales model of “Factories-Brands Manufacturers-Shopping Centres-Customers” to the sales model of “Factories-Hypermarkets-Customers, taking out brands manufacturers and reduces selling price directly.

### **2. Sales of polished diamonds**

The wide range of and complete varieties are the prime features of City-In-Love in finished products sales, and nearly cover all of diamond jewellery products. At the same time, some hypermarkets have even expanded the setting styles diamond merchandise such as gemstones and jades, thereby satisfying the multi-level demand of customers.

## **III. Development planning**

City-In-Love will focus on municipalities, provincial capitals and cities specifically designated in the state plan of the PRC and opens directly-operated flagship chain stores. The stores of City-In-Love are expected to basically cover every major city by the end of 2015 to achieve economies of scale throughout the nation. In terms of location of stores, we have at least captured the resources reserve in major capital cities of provinces and are able to maintain close co-operation with many commercial real estate developers.

## **Healthcare Information Technology (“HIT”) in the PRC**

Through the sale of products and provision of services, the Group was one of the major providers of the HIT system that is in line with the requirements of the China hospital systems. The Group will continue to endeavour in maintaining its market share in 2012. Our main products and services are set out as follows:

### ***1) Medical Imaging Database System***

After the research and development works conducted during this phase, the Medical Imaging Database System continues to integrate with the latest research achievements across engineering and modern medical aspects and has entered into an important phase of online testing.

With the commencement of the online testing, the first professional Medical Imaging Database System Platform in Mainland China has begun to take shape. The launching of the internet platform will complete the top and bottom cycles of the Medical Imaging Database System which enables it to become really capable of serving the PRC health institutions at all levels as well as realizing the perfect combinations of medical imaging with teaching, scientific research with clinical application to achieve an overwhelming pioneer advantage in this field.

By leveraging on its proprietary medical imaging software, the Company establishes the “Cloud Services” system on the internet in the long run, enabling the Medical Imaging Database System to cover medical imaging service contents, which will be widely used for a long period of time in the future in Mainland China. The medical imaging database is enriching continuously to provide support for the smooth operation of the network platform. Through the in-depth co-operation with the nationwide medical administration departments, scientific research institutions and nearly 100 authoritative medical institutions in flexible and diversified forms, medical imaging data in various areas of Mainland China was continuously added into the database that adopts the ACR international standards.

The adoption of internationally accepted ACR international standards at the beginning stage of data collection will allow the Company's own Medical Imaging Database System to become an international leading database provider immediately upon its establishment and realise the customisable medical imaging data service. In addition, it had the following functions:

- a. Medical imaging application and development: Trial run was commenced in various fields.
- b. Expert level science and research training and communication platform: It has already created certain influence among the Ministry of Health in China and its institutions.
- c. Medical imaging database service platform: Enable the communication and sharing of medical imaging data and medical information become feasible.
- d. Medical appliances and logistics platform: With in-depth development of various applications, the platform has begun to take shape.

## ***II) Electronic Medical Records (EMR) system***

The Group will continue to co-operate with engaged intermediate agents in which it becomes a principal market strategy for EMR projects.

With the past influence of the support from government hospitals in Mainland China, there was an increase in EMR products selling and installation cycle, and prolongs the obtaining of sales orders and completion of sales contracts for public hospitals in various regions in adopting EMR. Therefore, during the quarter, there was a decrease in the amount of sales recorded for the Group's EMR systems as compare with the first quarter in 2011.

## ***III) Regional Public Health Medical System***

### ***Regional Healthcare Platform***

The Group will use its proprietary software and technology to work with government healthcare management institutions in Mainland China to establish health archives information system for urban and rural area residents according to the requirements and standards of Ministry of Health in China ("MOHC"). The revenue for the quarter was mainly clustered on the projects in Tianjin, Shanghai, Guangdong Province and Beijing.

### **Mining Business**

The Directors are of the view that the long-term prospect of mineral resource prices will remain optimistic due to the continued demand from developing countries such as the PRC, India and Russia. The Group still needs to adjust the production plan of the mining operations. The mining operations have not yet begun to bring revenue contribution during the year.

### **Radio Trunking System Integration**

The radio trunking business did not record any turnover in the first and second quarters of 2012. No generation of turnover from the business was mainly due to the fact that the requirement of the customers for radio trunking system is moving towards digitalized products which are in line with the advancement of technology. As such, a new round of restructuring of the radio trunking system market in the Mainland China was triggered. The Group's self-developed software technology, namely Frequency-division multiple access ("FDMA") system, was unable to launch to the market as affected by such changes in the overall trend of the industry.

### **Group Future Development**

Apart from the acquisition of diamonds and precious stone retail business in China as set out in the Business Review and Outlook, the Group had no other significant acquisition or disposal of investments during the six months ended 30 June 2012.

Furthermore, the Group continues to explore any other new potential investment opportunities to improve the Group's standard performance and returns to shareholder.



## **FINANCIAL REVIEW**

### **Revenue**

For the six months period ended 30 June 2012, the unaudited consolidated turnover of the Group was approximately HK\$111.08 million and HK\$108.62 million in the corresponding period in 2011.

The turnover approximately HK\$37.61 million and HK\$73.47 million from the business of healthcare information technology (“HIT”) and diamond retail business respectively. For HIT, the decrease was mainly due to significant market competition in PRC.

### **Other revenues**

The Group obtained approximately HK\$3.59 million other revenue which was mainly represented by gain from disposal of fixed assets of approximately HK\$3.40 million.

### **Distribution expenses**

Distribution costs increase from HK\$7.61 million to HK\$14.41 million mainly represented marketing and promotions expenses for the development of the HIT business and diamond retail business, the increase in amount mainly due to more effort on the marketing to capture a higher market share in diamond retail business.

### **Administrative expenses**

Administrative expenses increase from HK\$23.74 million to HK\$63.47 million it mainly due to the share based payment of approximately HK\$21.36 million from 800 million new share options and increase in consulting and professional fee included in acquisition at diamond retail business.

### **Finance cost**

Finance cost for the period of approximately HK\$5.60 million was convertible bonds imputed interest. The convertible bonds of HK\$208 million were issued as consideration for acquisition of diamond retail business during the period with imputed compound interest rate of 5.7% per annum. Also, the Group has proceeded the placing of convertible bonds amounting to HK\$100 million to use up to HK\$80 million for financing the acquisition and the remaining for the Group’s general working capital.

### **Loss for the period**

As a result, the Group recorded the loss attributable to shareholders of the Company approximately HK\$44.39 million for the half year in the year 2012, and in the same period of last year we recorded a profit of HK\$8.76 million.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The bank balances and cash of the Group was amounting to HK\$32.99 million as at 30 June 2012. This represented an decrease of 58.84% as compared with the position as at 31 December 2011 of HK\$80.15 million.

## **CAPITAL STRUCTURE**

Convertible bonds in the original principal amount of HK\$465 million was issued by the Company and of which HK\$262.80 million were converted in previous years. The further HK\$96.98 million was converted during 2012. As at 30 June 2012, a principal amount of HK\$105.21 million of convertible bonds were still outstanding with conversion price of HK\$0.04.

During 2012, the Group issued convertible bonds in the original principal amount of HK\$100 million and HK\$208 million for the placing and for acquisition of diamond retail business respectively.

As at 30 June 2012, the Group's gearing ratio is 51% (31 December 2011: 31%), calculated on the basis of the Group's total liabilities over total assets. Taking into consideration the existing financial resources available to the Group, it is anticipated that the Group should have adequate financial resources to meet its ongoing operating and development requirements.

## **CHARGE ON GROUP ASSETS**

As at 30 June 2012, the Group's investments in financial assets held for trading with carrying value amounting to HK\$4.6 million were pledged to brokers to secure margin financing provided to the Group. Saving as disclosed above, no other group assets were charged or pledged to secure any loans or borrowings.



## **FOREIGN CURRENCY EXPOSURE**

Since the Group's sales, purchases and loans were substantially denominated in either RMB or Hong Kong dollars, the Directors of the Company considers that the potential foreign exchange exposure of the Group is limited.

## **CONTINGENT LIABILITIES**

As at 30 June 2012, the Board was not aware of any material contingent liabilities.

## **STAFF AND REMUNERATION POLICIES**

As at 30 June 2012, the Group employed a workforce of approximately 350, the majority of whom were employed in the PRC. Staff cost of basic salaries and other benefits, including directors' remuneration, amounted to approximately HK\$9 million for the six months ended 30 June 2012. The Group's remuneration policy has been in line with the prevailing market practice including discretionary bonus and remunerates its employees based on their performance and contribution. Other benefits include contributions to pension scheme and medical insurance.

## **FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS**

Save as disclosed herein, the Group did not have any details of future plan for material investments or capital assets as at 30 June 2012.

## **ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES**

Save as the above, the Group had no acquisitions or disposals of subsidiaries and affiliated companies of during the period.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2012, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required (a) to be notified to the Company and 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 (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

### Long positions in the ordinary shares of HK\$0.01 each of the Company

Name of the Shareholders	Type of interest	Number of shares	Number of underlying shares	Approximate percentage of issued share capital
Mr. Stephen William Frostick (Note 1)	Beneficial	-	10,000,000	0.07%
Mr. Cheng Chun Tak (Note 2)	Beneficial	-	35,000,000	0.24%

#### Notes:

1. Mr. Stephen William Frostick, an Executive Director of the Company, has interest in the Company.
2. Mr. Cheng Chun Tak, an Executive Director of the Company, has interest in the Company.

### Long positions in the underlying shares

On 31 March 2010, share options of 10,000,000 shares and 35,000,000 shares at exercise price of HK\$0.168 were granted to two directors of the Company, Mr. Stephen William Frostick and Mr. Cheng Chun Tak (who previously was consultant and appointed as executive director on 6 January 2012), under the Share Option Scheme. These share options are exercisable for a period of 3 years from the date of granted unconditionally.

Save as disclosed above, as at 30 June 2012, none of the Directors or the Chief Executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and 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 (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

## SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

As at 30 June 2012, so far as is known to the Directors of the Company, the following persons (other than a Director and the Chief Executive of the Company) had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

### Long positions in the ordinary shares of HK\$0.01 each of the Company

Name of the Shareholders	Type of interest	Number of shares	Number of underlying shares <i>(Note 4)</i>	Total	
				Number of shares and underlying shares	Approximate percentage of issued share capital
Value Vibrant Investments Limited ("Value Vibrant") <i>(Note 1)</i>	Beneficial	-	2,971,428,571	2,971,428,571	26.36%
Ms. Ye Hong <i>(Note 2)</i>	Beneficial	-	1,213,155,101	1,213,155,101	10.76%
Twin Wins Capital Limited ("Twin Wins") <i>(Note 3)</i>	Beneficial	-	848,979,591	848,979,591	7.53%

#### Notes:

- Value Vibrant is wholly owned by Kwok Sum Kan, Jason, who is deemed to be interested in the shares.
- Ms. Ye Hong is an independent third party not connected with directors, chief executives or substantial shareholders of the Company, any of its subsidiaries or any of their respective associates. She is not involved in the management of the Company and its subsidiaries.
- Twin Wins is wholly owned by Liu Qiang who is deemed to be interested in the shares.
- The underlying shares of Value Vibrant and Twin Wins are in respect of the convertible bonds issued by the Company on 11 May 2012. The underlying shares of Ms. Ye Hong is in respect of the convertible bonds issued by the Company (transferred by Absolute Power International Limited) on 17 November 2011.

Save as disclosed above, as at 30 June 2012, the Directors were not aware of any other person (other than the Directors or the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

## **SHARE OPTION SCHEME**

The Company adopted a new share option scheme on 30 July 2007 (“the Scheme”), which became effective for a period of 10 years commencing on 10 August 2007. Under the Scheme, the Directors of the Company may at their discretion grant options to any eligible person to subscribe for the shares of the Company (“Share”) at the higher of: (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet on the date of grant; (ii) the average closing price of the Share as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a Share. The offer of a grant of option shall remain open for acceptance within 21 days from the date of offer. A nominal consideration of HK\$1 is payable on acceptance of the grant of the option. The exercise period of the option must not be more than 10 years from the date of grant of the option.

The Company operates the Scheme for the purpose of advancing the interests of the Company and its shareholders by enabling the Company to grant options to attract, retain and reward any eligible persons which include any director of the Group, any employee of the Group, any consultant, adviser, agent, supplier, customer, business partner or shareholder of the Group for their contribution or potential contribution to the Group.

The total number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes in force from time to time must not in aggregate exceed 30% of the Shares in issue from time to time.

The total number of Shares which may be issued upon exercise of all options to be granted under the Scheme shall not in aggregate exceed 10% of the total number of Shares in issue as at the date of the passing of the relevant resolution adoption the Scheme.

Pursuant to the Scheme, as at 30 June 2012, the employees and consultants were granted share options to subscribe for shares of the Company, details of which were as follows:

Name or category of participant	As at 1 January 2012	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	As at 30 June 2012	Date of granted of share options	Exercise period of share options	Exercise price of share options
Directors									
Stephen William Frostick	10,000,000	-	-	-	-	10,000,000	31 March 2010	31 March 2010 – 30 March 2013	HK\$0.186
Cheng Chun Tak	35,000,000	-	-	-	-	35,000,000	31 March 2010	31 March 2010 – 30 March 2013	HK\$0.186
	<u>45,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,000,000</u>			
Employees	29,220,000	-	-	-	-	29,220,000	10 August 2007	10 August 2007 – 9 August 2012	HK\$0.380
Employees	52,000,000	-	-	-	12,000,000	40,000,000	31 March 2010	31 March 2010 – 30 March 2013	HK\$0.186
Employees	-	800,000,000	-	-	-	800,000,000	26 January 2012	26 January 2012 – 25 January 2015	HK\$0.061
	<u>81,220,000</u>	<u>800,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>869,220,000</u>			
Consultants	58,439,900	-	-	-	-	58,439,900	10 August 2007	10 August 2007 – 9 August 2012	HK\$0.380
Consultants	103,000,000	-	-	-	-	103,000,000	31 March 2010	31 March 2010 – 30 March 2013	HK\$0.186
Consultants	50,000,000	-	-	-	-	50,000,000	3 May 2010	3 May 2010 – 2 May 2013	HK\$0.186
Consultants	20,000,000	-	-	-	-	20,000,000	9 July 2010	9 July 2010 – 8 July 2013	HK\$0.186
	<u>231,439,900</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>231,439,900</u>			
	<u>357,659,900</u>	<u>800,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,145,659,900</u>			

The total number of Shares available for issue under the Scheme as at the date thereof was 1,145,659,900 representing approximately 7.78% of the issued share capital of the Company.

## **COMPETING INTERESTS**

The directors of the Company are not aware of, as at 30 June 2012, any business or interests of each directors of the Company, management shareholders and the respective associates (as defined in the GEM Listing Rules) of each that compete or may compete with the business of the Group and any other conflicts of interests which any such person has or may have with the Group.

## **CORPORATE GOVERNANCE CODE**

The Company's corporate governance practices are based on the principles and the code provisions (the "Code") as set out in the Corporate Governance Code as set out in Appendix 15 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules"). The principles adopted by the Company emphasis a quality board, transparency and accountability to shareholders. In the opinion of the Board, the Company has complied with the Code for the period ended 30 June 2012.

## **COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES**

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules (the "Model Code"). Having made specific enquiry with the Directors, all the Directors confirmed that they have complied with the required standard as set out in the Model Code during the six months ended 30 June 2012.

## **AUDIT COMMITTEE**

The audit committee has been established since July 2000 with defined terms of reference, which are of no less exacting terms than those set out in the Code on Corporate Governance Practices of the GEM Listing Rules, to review the Group's financial reporting, internal controls, and corporate governance and risk management matters and to make relevant recommendations to the Board.

The audit committee comprises three Independent Non-executive Directors of the Company, namely Mr. Lee Chi Hwa, Joshua (Chairman), Mr. Tso Hon Sai, Bosco and Mr. Chang Jun. The Group's unaudited results for the six months ended 30 June 2012 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with applicable accounting standards and requirements and that adequate disclosures have been made.



## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2012.

On behalf of the Board

**CHINA FORTUNE INVESTMENTS (HOLDING) LIMITED**

**Stephen William Frostick**

*Chairman*

Hong Kong, 14 August 2012

*As at the date hereof, the Board comprises four executive Directors, namely Mr. Stephen William Frostick, Mr. Cheng Chun Tak, Mr. Wan Zihong and Mr. Chang Chun and three independent non-executive Directors, namely Mr. Chang Jun, Mr. Tso Hon Sai Bosco and Mr. Lee Chi Hwa Joshua.*