

CHINA FORTUNE INVESTMENTS

中國幸福投資

Half-Year Report 2013



CFI

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.

Hong Kong Exchange and Clearing Limited and The Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of China Fortune Investments (Holding) Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

FINANCIAL HIGHLIGHT

- Recorded an unaudited turnover of the Group from continuing operations approximately HK\$179.71 million for the six months ended 30 June 2013 and HK\$73.47 million (re-presented) in 2012. Gross profit for the continuing operations in 2013 is approximately HK\$82.61 million;
- Recorded an unaudited profit attributable to the equity holders of the Company amounted to approximately HK\$24.50 million, for the six months ended 30 June 2013;
- The Board do not recommend the payment of an interim dividend for the six months ended 30 June 2013.

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 2013, 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 2013

	NOTES	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2013 HK\$'000	(Re- presented) 2012 HK\$'000	2013 HK\$'000	(Re- presented) 2012 HK\$'000
Continuing Operations					
Turnover	2	78,127	73,472	179,709	73,472
Cost of sales		(44,329)	(53,455)	(97,103)	(53,455)
Gross profit		33,798	20,017	82,606	20,017
Other income and gains, net	2	–	157	40	157
Distribution expenses		(13,741)	(9,043)	(31,209)	(9,043)
Administrative expenses		(8,356)	(3,527)	(16,124)	(36,089)
Unrealised loss on financial assets held for trading		–	(792)	–	(1,196)
Finance costs		2,558	(3,910)	1,881	(5,599)
Profit/(loss) before income tax expense from continuing operations	4	14,259	2,902	37,194	(31,753)
Income tax expenses	5	(3,696)	(2,661)	(10,347)	(2,661)
Profit/(loss) for the period from continuing operations		10,563	241	26,847	(34,414)
Discontinued operations					
Loss/(profit) for the period from discontinued operations		(1,561)	7,870	(4,862)	(3,653)
Profit/(loss) for the period		9,002	8,111	21,985	(38,067)
Other comprehensive income:					
Net gain arising on revaluation of available- for-sale investment during the period		–	–	–	69
Exchange differences on translation of financial statements of foreign operations		67	(1,583)	(187)	(2,298)
Other comprehensive (expenses)/income for the period, net of tax		67	(1,583)	(187)	(2,229)
Total comprehensive income/(expenses) for the period		9,069	6,528	21,798	(40,296)

	NOTES	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2013 HK\$'000	(Re- presented) 2012 HK\$'000	2013 HK\$'000	(Re- presented) 2012 HK\$'000
Profit/(loss) attributable to:					
Shareholders of the Company		10,116	654	24,503	(44,387)
Non-controlling interests		(1,114)	7,457	(2,518)	6,320
		<u>9,002</u>	<u>8,111</u>	<u>21,985</u>	<u>(38,067)</u>
Total comprehensive income/(expenses) attributable to:					
Shareholders of the Company		10,192	(929)	24,336	(46,616)
Non-controlling interests		(1,123)	7,457	(2,538)	6,320
		<u>9,069</u>	<u>6,528</u>	<u>21,798</u>	<u>(40,296)</u>
Earnings/(loss) per share attributable to Shareholder of the Company	6		(Restated)		(Restated)
From continuing and discontinuing operations					
Basic (<i>HK cents per share</i>)		<u>0.55</u>	0.05	<u>1.33</u>	<u>(3.71)</u>
Diluted (<i>HK cents per share</i>)		<u>0.55</u>	0.60	<u>1.23</u>	<u>(3.71)</u>
From continuing operations					
Basic (<i>HK cents per share</i>)		<u>0.57</u>	0.02	<u>1.46</u>	<u>(2.87)</u>
Diluted (<i>HK cents per share</i>)		<u>0.57</u>	0.58	<u>1.34</u>	<u>(2.87)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2013

	NOTES	Unaudited As at 30 June 2013 HK\$'000	Audited As at 31 December 2012 HK\$'000
Non-current assets			
Property, plant and equipment	7	24,940	26,042
Goodwill		569,706	569,706
Deferred tax asset		674	674
Deposit		4,896	8,966
		600,216	605,388
Current assets			
Inventories		191,490	120,655
Trade receivables	8	11,138	1,144
Other receivables, deposits and prepayments		74,643	67,329
Financial assets at fair value through profit or loss		–	300
Amount due from a related company		1,647	861
Cash and bank balances		8,517	16,596
		287,435	206,885
Asset of a disposal group classified as held for sale		155,594	155,148
Total current assets		443,029	362,033
Current liabilities			
Trade payables	9	29,672	15,446
Accruals, other payables and deposits received		136,776	114,545
Contingent consideration payable		229,072	229,072
Interest-bearing bank borrowings		22,506	23,472
Advances from a former shareholder of a subsidiary		37,097	37,097
Due to directors		3,900	12,222
Tax payable		11,754	10,000
		470,777	441,854
Liabilities directly associates with the assets classified as held for sale		62,635	57,097
Total current liabilities		533,412	498,951
NET CURRENT LIABILITIES		(90,383)	(136,918)
TOTAL ASSETS LESS CURRENT LIABILITIES		509,833	468,470

		Unaudited	Audited
		As at	As at
		30 June	31 December
		2013	2012
	<i>NOTES</i>	HK\$'000	HK\$'000
Non-current liabilities			
Interest-bearing bank borrowings		1,420	1,653
Convertible bonds	11	128,665	308,755
Total non-current liabilities		130,085	310,408
NET ASSETS			
		379,748	158,062
EQUITY			
Capital and reserves			
Issued capital	10	221,400	154,646
Reserves		162,530	5,060
Equity attributable to shareholders of the Company			
		383,930	159,706
Non-controlling interests		(4,182)	(1,644)
TOTAL EQUITY			
		379,748	158,062

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2013

	Unaudited Six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
Net cash outflow from operating activities	(32,729)	(65,486)
Net cash inflow/(outflow) from investing activities	2,785	(86,762)
Net cash inflow from financing activities	21,347	107,397
Decrease in cash and cash equivalents	(8,597)	(44,851)
Effect of foreign exchange rate changes	518	(2,298)
Cash and cash equivalents at the beginning of the period	16,596	80,146
Cash and cash equivalents at the end of the period	8,517	32,997
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	8,517	32,997
Less: pledged bank deposits	–	–
Cash and cash equivalents at the end of the period	8,517	32,997

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2013 (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
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	(2,298)	(44,387)	(46,616)	6,320	(40,295)
At 30 June 2012	147,175	1,097,978	(46,815)	24,338	77,296	62,391	163	22,276	(545,779)	839,023	31,201	870,224
Six months ended 30 June 2013												
At 1 January 2013	154,646	1,119,870	(46,815)	20,585	47,215	54,563	-	25,572	(1,215,930)	159,706	(1,644)	158,062
Issue of shares	66,754	169,002	-	-	-	(35,868)	-	-	-	199,888	-	199,888
Transfer to accumulated losses	-	-	-	-	(23,987)	-	-	-	23,987	-	-	-
Exchange difference on translation of foreign operation	-	-	-	-	-	-	-	(167)	-	(167)	(20)	(187)
Total comprehensive income attributable to shareholders	-	-	-	-	-	-	-	-	24,503	24,503	(2,518)	21,985
At 30 June 2013	221,400	1,288,872	(46,815)	20,585	23,228	18,695	-	25,405	(1,167,440)	383,930	(4,182)	379,748

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 2012. 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	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans</i> ²
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities</i> ²
HKFRS 9	<i>Financial Instruments</i> ⁴
HKFRS 10	<i>Consolidated Financial Statements</i> ²
HKFRS 11	<i>Joint Arrangements</i> ²
HKFRS 12	<i>Disclosure of Interests in Other Entities</i> ²
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11, HKFRS 12 – <i>Transition Guidance</i> ²
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12, HKAS 27 (2011) – <i>Investment Entities</i> ³
HKFRS 13	<i>Fair Value Measurement</i> ²
HKAS 1 Amendments	Amendments to HKAS 1 <i>Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income</i> ¹
HKAS 19 (2011)	<i>Employee Benefits</i> ²
HKAS 27 (2011)	<i>Separate Financial Statements</i> ²
HKAS 28 (2011)	<i>Investments in Associates and Joint Ventures</i> ²
HKAS 32 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities</i> ³
HK(IFRIC)-Int 20 <i>Annual Improvements 2009-2011 Cycle</i>	<i>Stripping Costs in the Production Phase of a Surface Mine</i> ² Amendments to a number of HKFRSs issued in June 2012 ²

1. Basis of preparation and principal accounting policies (continued)

- ¹ *Effective for annual periods beginning on or after 1 July 2012*
² *Effective for annual periods beginning on or after 1 January 2013*
³ *Effective for annual periods beginning on or after 1 January 2014*
⁴ *Effective for annual periods beginning on or after 1 January 2015*

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

2. Revenue, other income and gains, net

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns, trade discounts, value added tax and consumption tax.

An analysis of the revenue, other income and gains, net, from continuing operations is as follows:

	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
	2013 HK\$'000	2012 <i>HK\$'000</i>	2013 HK\$'000	2012 <i>HK\$'000</i>
Revenue				
Sales of goods	78,127	73,472	179,709	73,472
Other income and gains, net				
Interest income	–	25	6	25
Others	–	132	34	132
	–	157	40	157

3. Operating segment information

For management purposes, the Group's continuing operations is organised into business units based on their products and services and has only one reportable segment, which is the diamond and jewellery business. The corporate office in Hong Kong does not earn revenue and is not classified as an operating segment.

Management monitors the results of the Group's operating segments separately for the purposes of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax from continuing operations. The adjusted profit/(loss) before tax from continuing operations is measured consistently with the Group's profit/(loss) before tax from continuing operations except that investment and other income, fair value gain/(loss) on financial assets at fair value through profit or loss and derivative financial instrument, impairment loss on available-for-sale investments, equity-settled share option expense, head office and corporate expenses, finance costs as well as provision for inventories are excluded from such measurement.

Sales of products/services relating to HIT business operations discontinued in current year. The segment information reported below does not include any amounts for these discontinued operations.

For the six month ended 30 June 2013 (Unaudited):

	(Unaudited)	
	For the six months	
	ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
Segment revenue		
Sales to external customers	179,709	73,472
Segment results	34,297	7,841
<i>Reconciliation:</i>		
Other income	40	157
Realised fair value loss on disposal of financial assets at fair value through profit or loss	-	(1,196)
Equity-settled share option expense	-	(21,360)
Corporate and other unallocated expenses	(15,246)	(20,639)
Finance costs	2,707	(5,099)
Profit/(loss) before tax from continuing operations	21,798	(40,296)

3. **Operating segment information (continued)**
Geographical information

(a) *Revenue from external customers*

All the revenue are from external customers and it mainly generated from Mainland China. The revenue information of continuing operations above is based on the locations of the customers.

(b) *Non-current assets*

	(Unaudited) As at ended 30 June 2013 HK\$'000	(Audited) As at 31 December 2012 HK\$'000
Mainland China	592,599	593,037
Hong Kong	2,097	2,711
	594,646	595,748

4. Profit /(loss) before income tax expenses

	Three months ended 30 June		Six months ended 30 June	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Continuing operations				
Profit/(loss) before tax has been arrived after charging:				
Cost of sales	44,329	53,455	97,103	53,455
Depreciation of property, plant and equipment	1,952	915	3,084	915
Operating lease rental in respect of rented premises	4,117	8,372	9,348	8,378
Staff costs, including directors' emoluments:				
– Basic salaries and other benefits	8,736	6,316	16,149	8,505
– 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	
		2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Hong Kong profits tax	(i)	1,472	–	2,516	–
Overseas taxation	(ii)	2,224	2,661	7,831	2,661
		3,696	2,661	10,347	2,661

- (i) Hong Kong profits tax has been provided at the rate of 16.5% on estimated 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. Profit/(loss) per share (continued)

From continuing operations

The calculation of the basic and diluted profit/(loss) per share are based on:

	(Unaudited) For the six months ended 30 June	
	2013	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit/(loss) for the purpose of basic loss per share from continuing operations	26,847	(34,655)
Effect of dilutive potential ordinary share:		
Interest on convertible bonds (net of tax)	1,477	-
Profit/(loss) for the purpose of diluted earnings/(loss) per share from continuing operations	28,324	(34,655)

7. Property, plant and equipment

	Unaudited 30 June 2013 <i>HK\$'000</i>	Audited 31 December 2012 <i>HK\$'000</i>
Net book value as at 1 January	26,042	18,685
Additions	2,670	9,629
Depreciation	(3,084)	(13,749)
Acquisition through business combination	-	20,664
Disposal of subsidiaries	-	(302)
Assets included in discontinued operations impairment	-	(9,137)
Elimination upon disposal	(3)	(148)
Exchange rate adjustment	(685)	400
Net book value, end of the period/year	24,940	26,042

8. Trade receivables

An aged analysis of the Group's trade receivables as at the end of the reporting period, based on the invoice date and net of impairment allowance, 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 2013	1,748	9,390	–	–	–	11,138
As at 31 December 2012	57	–	143	944	–	1,144

9. Trade payables

An aged analysis of the Group's trade payables as at the end of the reporting period, based on invoice date, 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 2013	16,527	7,760	3,933	1,452	–	29,672
As at 31 December 2012	628	5,572	5,770	3,129	347	15,446

10. Share capital

	The Company			
	30 June 2013		31 December 2012	
	Number of share of HK\$0.1 each	Nominal Value <i>HK\$'000</i>	Number of share of HK\$0.1 each	Nominal Value <i>HK\$'000</i>
Authorised:				
Ordinary shares	5,000,000,000	500,000	5,000,000,000	500,000
Issued and fully paid:				
At 1 January	1,546,462,127	154,646	1,127,249,888	112,725
Issue of new shares	225,449,977	22,545	–	–
Exercise of convertible bonds	442,089,392	44,209	419,212,239	41,921
At 30 June	2,214,001,496	221,400	1,546,462,127	154,646

11. Convertible bonds

In 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\$0.4 per share to acquire 100% equity interests in Super Surplus Trading Limited.

In the previous years, the CB I were converted into ordinary shares with aggregate principal amounts of HK\$381.55 million at a conversion price of HK\$0.4 per conversion share. There are HK\$15.16 million conversion during the six months ended 30 June 2013.

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.

In 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\$0.49 per 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.

In 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. As at 30 June 2012, it fully converted to ordinary shares.

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

11. 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
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Proceeds of issue	465,000	100,000	208,000
Equity component	<u>(52,898)</u>	<u>(18,252)</u>	<u>(34,991)</u>
Liability component at date of issue	412,102	81,748	173,009
Interest charged	22,178	2,583	5,262
Converted into ordinary shares	<u>(338,146)</u>	<u>(41,507)</u>	<u>(8,744)</u>
Non-current liability component at 31 December 2012	96,134	42,824	169,797
Imputed finance cost	1,282	1,038	(5,067)
Converted into ordinary shares	<u>(12,613)</u>	<u>-</u>	<u>(164,730)</u>
Non-current liabilities component as at 30 June 2013	<u>84,803</u>	<u>43,862</u>	<u>-</u>

12. Dividend

The Board of the Company does not recommend the payment of an interim dividend throughout the six months ended 30 June 2013.

13. Charge on group's assets

As at 30 June 2013, the Group's motor vehicles with carrying value amounting to HK\$2.03 million were pledged to the financial institution. Saving as disclosed above, no other group assets were charged or pledged to secure any loans or borrowings.

14. Comparative figures

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

BUSINESS REVIEW AND OUTLOOK

Diamonds and gemstone business in China

The Group engages in the retail business of diamonds, jades as well as other gemstones 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). The Directors believe that there will be raising 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 and gemstone 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. With its more effective business development strategies and outstanding market performance, City-In-Love has attracted more attention as one of emerging sales model of jewellery products and has emerged itself the role of representing the affordable and professional diamond hypermarkets in 2012.

I. Purchases

Through the positive interaction with suppliers which is facilitated by the good sales performance, the global supply mechanism set up by City-In-Love is becoming more and more comprehensive and has established stable co-operation with nearly fifty suppliers. With the further development of its business, City-In-Love positions itself with more bargaining power to further its revolutionary purchase model of “Deposit-Leverage-Consignment” in the diamonds industry to purchase quality diamond merchandise through low margin deposits.

At the same time, with the exchangeable nature of consignment merchandise, it will also enable City-In-Love to provide more fashionable and popular diamond and jewellery products.

II. Sales

As a result of the reform in traditional jewellery sales models, City-In-Love has significantly trimmed down the sales and circulation segments under the traditional department store models through its own hypermarkets and sold jewellery products at affordable prices by cutting down intermediaries.

Each of the diamonds sold by City-In-Love is attached with a diamond examination certificate issued by authoritative inspection institutes (including GIA, IGI, HRD and NGTC), and has to the greatest extent protected the consumers in buying genuine quality diamonds.

The sales model of “loose diamonds” plus “rings” initiated by City-In-Love has transformed consumers’ comprehension of diamond jewellery products represented by “diamond rings” and implemented the concept of selling diamonds at affordable prices in a more quantitative and transparent sales model. The varieties, specifications, quantities and styles of diamonds sold at its stores far exceed the traditional department stores. Besides, some hypermarkets have even expanded their merchandise to cover emeralds, jades, gemstones and pearls, thus, the merchandise sold at its stores cover nearly all of diamond jewellery products.

III. Establishment of new stores

In 2012, City-In-Love further integrated its Beijing markets with currently four stores. Besides, the Shenyang store outside of Beijing was successfully set up and put into operation, thereby commencing its implementation of the nationwide expansion plan. Furthermore, the Chengdu store opened in April 2013 and it has introduced many high-tech measures and will topple and bring different purchasing experience to customers.

IV. Development planning

Owing to the distinctive features of the business model in diamond retailing by City-In-Love, its revenue growth was mainly attributed to the expansion of sales volume. Therefore, City-In-Love will speed up the establishment of new stores with the provincial capital cities in Mainland China being the major target cities.

Besides its retail business, the Company will also focus on the development of various profit growing segments to improve its overall profitability, like the development of upstream industry chain and the jewellery wholesale business.

Meanwhile, City-In-Love will make new attempts on its online sales by leveraging on the advantages of its stores of physical presence to expand its sales regions and increase its influence.

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. Our main products and services are set out as follows:

- I) Medical Imaging Database System
- II) Electronic Medical Records (EMR) System
- III) Regional Public Health Medical System

On 28 March 2013, the Group entered into the conditional sale and purchase agreement (“Agreement”) with DA FU HOLDINGS LIMITED (“Purchaser”) in relation to the proposed disposal by the Company of its subsidiaries engaging in HIT business contemplated under the Agreement (“Proposed Disposal”).

On 12 August 2013, the shareholders of the Company have approved the Agreement relates to the Disposal in Extraordinary General Meeting.

As at 30 June 2013, the assets and liabilities of the HIT business were classified as held for sale on the condensed consolidated statement of financial position.

Group and other business

Apart from the acquisition of diamonds and precious stone retail and wholesales business in China as set out in the Business Review and Outlook, the Proposed Disposal and the disposals mentioned below, the Group had no other significant acquisition or disposal of investments for the six months period ended 30 June 2013.

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

FINANCIAL REVIEW

Revenue

For the six months period ended 30 June 2013, the consolidated turnover of the Group from continuing operations was approximately HK\$179.71 million and HK\$73.47 million (re-presented) in 2012. Gross profit for the continuing operations in 2013 is approximately HK\$82.61 million. The revenue is generated from the retail and wholesales of diamonds, jade and other gemstones in Mainland China and Hong Kong.

Other revenues

The Group obtained approximately HK\$40,000 in other revenue including bank interest income of HK\$6,000.

Selling and distribution expenses

Selling and distribution expenses is approximately HK\$31.21 million, mainly representing advertisement expenses and rental expenses for the diamond and jewellery business.

Finance costs

Finance costs for the year of approximately HK\$1.88 million were convertible bonds imputed interest and interest in bank loans. During the period, the convertible bonds of HK\$213 million were converted to the shares. Thus, HK\$2.75 million imputed interest income recorded during the period. Also, the interest expense in bank loan of HK\$866,000 recorded during the period.

Results of the period

The unaudited profit attributable to shareholders for the six months ended 30 June 2013 amounted to approximately HK\$24.50 million.

LIQUIDITY AND FINANCIAL RESOURCES

The bank balances and cash of the Group was amounting to HK\$8.52 million as at 30 June 2013. This represented a decrease of 49% as compared with the position as at 31 December 2012 of HK\$17 million.

CAPITAL STRUCTURE

Convertible bonds in the original principal amount of HK\$465 million ("CB I") was issued by the Company in prior years of which HK\$381.55 million were converted in previous years, and HK\$15.16 million were converted during the period. As at 30 June 2013, a principal amount of HK\$68.29 million of CB I were still outstanding with a conversion price of HK\$0.4 per share.

In 2012, the Group issued convertible bonds in the original principal amount of HK\$100 million ("CB II") and HK\$208 million ("CB III"). For the CB II and CB III, approximately HK\$50 million and HK\$10 million were converted in 2012. For CB III, it was fully converted during the period. As at 30 June 2013, principal amounts of HK\$50 million CB II was outstanding with conversion prices of HK\$0.49 per share.

As at 30 June 2013, the Group's current ratio is 83% (31 December 2012: 72%). Taking into consideration the existing financial resources and disposal of HIT business, 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 2013, the Group's motor vehicles with carrying value amounting to HK\$2.03 million were pledged to the financial institution. Saving as disclosed above, no other group assets were charged or pledged to secure any loans or borrowings.

FOREIGN EXCHANGE EXPOSURE

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

CONTINGENT LIABILITIES

As at 30 June 2013, the Group did not have any material contingent liabilities.

STAFF AND REMUNERATION POLICIES

As at 30 June 2013, the Group employed a workforce with head count of approximately 250, the majority of whom were employed in the PRC. Employee benefit expenses from continuing operations, including directors' emoluments, amounted to approximately HK\$16.15 million. 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 retirement scheme and medical insurance.

ACQUISITIONS OF SUBSIDIARIES AND AFFILIATED COMPANIES

Save as disclosed above, the Group had no other acquisitions or disposals of subsidiaries and affiliated companies for the year ended 30 June 2013.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed above, the Group did not have any future plans for material investments or capital assets as at 30 June 2013.

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

As at 30 June 2013, 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\$0.1 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. Zhang Jie (<i>Note 1</i>)	Beneficial	56,714,285	-	2.56%

Notes:

1. Mr. Zhang Jie, an Executive Director of the Company deemed to have interest in the Company which is held by GLORYWIDE GROUP LIMITED.

Long positions in the underlying shares

Save as disclosed above, as at 30 June 2013, 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 2013, 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\$0.1 each of the Company

Name of the Shareholders	Type of interest	Number of shares	Number of	Total	Approximate percentage of issued share capital
			underlying shares <i>(Note 4)</i>	Number of shares and underlying shares	
Mr. Lin Haibin <i>(Note 1)</i>	Beneficial	–	272,040,816	272,040,816	12.29%

Notes:

1. Mr. Lin Haibin is an independent third party not connected with the directors, chief executive or substantial shareholders of the Company, any of its subsidiaries or any of their respective associates. He is not involved in the management of the Company and its subsidiaries.

Save as disclosed above, as at 30 June 2013, 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 highest 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 2013, the employees and consultants were granted share options to subscribe for shares of the Company, taking into consideration in share consolidation with effect from 26 March 2013, details of which were as follows:

Name or category of participant	As at 1 January 2013	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	As at 30 June 2013	Date of granted of share options	Exercise period of share options	Exercise price of share options
Directors									
Stephen William Frostick	1,000,000	-	-	(1,000,000)	-	-	31 March 2010	31 March 2010 – 30 March 2013	HK\$1.86
Cheng Chun Tak	3,500,000	-	-	(3,500,000)	-	-	31 March 2010	31 March 2010 – 30 March 2013	HK\$1.86
	<u>4,500,000</u>	<u>-</u>	<u>-</u>	<u>(4,500,000)</u>	<u>-</u>	<u>-</u>			
Employees									
Employees	4,000,000	-	-	(4,000,000)	-	-	31 March 2010	31 March 2010 – 30 March 2013	HK\$1.86
Employees	80,000,000	-	-	-	-	80,000,000	26 January 2012	26 January 2012 – 25 January 2015	HK\$0.61
	<u>84,000,000</u>	<u>-</u>	<u>-</u>	<u>(4,000,000)</u>	<u>-</u>	<u>80,000,000</u>			
Consultants									
Consultants	10,300,000	-	-	(10,300,000)	-	-	31 March 2010	31 March 2010 – 30 March 2013	HK\$1.86
Consultants	5,000,000	-	-	(5,000,000)	-	-	3 May 2010	3 May 2010 – 2 May 2013	HK\$1.86
Consultants	2,000,000	-	-	-	-	2,000,000	9 July 2010	9 July 2010 – 8 July 2013	HK\$1.86
	<u>17,300,000</u>	<u>-</u>	<u>-</u>	<u>(15,300,000)</u>	<u>-</u>	<u>2,000,000</u>			
	<u>105,800,000</u>	<u>-</u>	<u>-</u>	<u>(23,800,000)</u>	<u>-</u>	<u>82,000,000</u>			

The total number of Shares available for issue under the Scheme as at the date thereof was 82,000,000 Shares representing approximately 3.70% of the issued share capital of the Company.

COMPETING INTERESTS

The directors of the Company are not aware of, as at 30 June 2013, 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 PRACTICES

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 2013.

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 2013 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 2013.

On behalf of the Board

CHINA FORTUNE INVESTMENTS (HOLDING) LIMITED

Cheng Chun Tak and Wan Zihong

Co-Chairmen

Hong Kong, 14 August 2013

As at the date of this report, the Board comprises six executive Directors, namely Mr. Cheng Chun Tak (co-chairman), Mr. Wan Zihong (co-chairman), Mr. Chang Chun, Mr. Zhang Jie, Mr. He Ling and Mr. Stephen William Frostick, one non-executive Director, namely Mr. Huang Shenglan and four independent non-executive Directors, namely Mr. Chang Jun, Mr. Tso Hon Sai Bosco, Mr. Lee Chi Hwa Joshua and Ms. Ching Wai Han.