



(incorporated in the Cayman Islands with limited liability)  
Stock Code: 290



**Interim Report 2008**

# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Mr. SUN Tak Yan, Desmond (*Chairman*)  
Mr. NG Cheuk Fan, Keith (*Managing Director*)  
Mr. YEUNG Kwok Leung

### Independent Non-Executive Directors

Mr. NG Kay Kwok  
Mr. LAM Ka Wai, Graham  
Mr. TAM B Ray Billy

### COMPANY SECRETARY

Ms. CHOW Man Ngan

### QUALIFIED ACCOUNTANT

Mr. YEUNG Kwok Leung

### AUTHORISED REPRESENTATIVES

Mr. YEUNG Kwok Leung  
Ms. CHOW Man Ngan

### AUDIT COMMITTEE

Mr. NG Kay Kwok (*Chairman*)  
Mr. LAM Ka Wai, Graham  
Mr. TAM B Ray Billy

### REMUNERATION COMMITTEE

Mr. LAM Ka Wai, Graham (*Chairman*)  
Mr. NG Cheuk Fan, Keith  
Mr. NG Kay Kwok  
Mr. TAM B Ray Billy

### NOMINATION COMMITTEE

Mr. TAM B Ray Billy (*Chairman*)  
Mr. LAM Ka Wai, Graham  
Mr. NG Cheuk Fan, Keith  
Mr. NG Kay Kwok

### AUDITOR

Shu Lun Pan Horwath Hong Kong CPA Limited  
*Certified Public Accountants*

### REGISTERED OFFICE

P.O. Box 309  
Ugland House  
Grand Cayman  
KY1-1104  
Cayman Islands

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

1702-3, 17th Floor  
Skyline Commercial Centre  
71-77 Wing Lok Street  
Sheung Wan  
Hong Kong

Tel : (852) 3105 1863  
Fax : (852) 3105 1862

## PRINCIPAL BANKERS

Standard Chartered Bank (Hong Kong) Limited  
Chong Hing Bank Limited

## LEGAL ADVISERS

*Hong Kong Law*  
Troutman Sanders  
Kirkpatrick & Lockhart Preston Gates Ellis  
*Cayman Islands Law*  
Maples and Calder

## CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited  
Butterfield House, 68 Fort Street  
P.O. Box 705  
Grand Cayman, KY1-1107  
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited  
Rooms 1901-02, Fook Lee Commercial Centre  
Town Place, 33 Lockhart Road  
Wanchai  
Hong Kong

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## STOCK CODE

0290

## WEBSITE

[www.290.com.hk](http://www.290.com.hk)

## Interim Results

The board (the "Board") of directors (the "Directors") of China Fortune Group Limited (formerly known as China Conservational Power Holdings Limited) (the "Company") announced the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2008 together with the comparative figures for the corresponding period in 2007 as follows:

## Condensed Consolidated Income Statement

For the six months ended 30 September 2008

		<b>Six months ended</b>	
		<b>30 September</b>	
		<b>2008</b>	2007
		<b>HK\$'000</b>	HK\$'000
	<i>Notes</i>	<b>(unaudited)</b>	(unaudited)
Turnover	3	<b>4,192</b>	5,207
Cost of sales		<b>(2,002)</b>	(2,662)
Gross profit		<b>2,190</b>	2,545
Other revenue		<b>269</b>	403
Administrative expenses		<b>(6,648)</b>	(7,843)
Reversal of impairment losses on investment deposits	4	<b>8,000</b>	2,500
Reversal of (charge for) impairment losses on investments held for trading	5	<b>22,413</b>	(12)
Profit (loss) from operations	6	<b>26,224</b>	(2,407)
Finance costs	7	<b>(1,793)</b>	(1,921)
Profit (loss) before taxation		<b>24,431</b>	(4,328)
Taxation	8	<b>-</b>	-
Net profit (loss) for the period		<b>24,431</b>	(4,328)
Dividend	9	<b>-</b>	-
Profit (loss) per share			
– basic	10	<b>5.2 cents</b>	(0.9) cents
– diluted	10	<b>N/A</b>	N/A

# Condensed Consolidated Balance Sheet

As at 30 September 2008

	Notes	30 September 2008 HK\$'000 (unaudited)	31 March 2008 HK\$'000 (audited)
<b>Non-current assets</b>			
Property, plant and equipment	11	245	425
Intangible asset		-	-
Other assets		230	240
Associates		-	-
Jointly-controlled entity		-	-
		<b>475</b>	665
<b>Current assets</b>			
Investments held for trading	12	61,167	38,784
Accounts receivable	13	12,445	10,303
Other receivables, deposits and prepayments		1,499	516
Retention money receivables		-	375
Loan receivable		-	-
Investment deposits		-	-
Amounts due from related companies		25	25
Amount due from a director		524	426
Pledged bank deposits		2,206	2,196
Bank balances – client accounts		15,724	11,140
Bank balances – general accounts and cash		7,946	15,390
		<b>101,536</b>	79,155
<b>Current liabilities</b>			
Bank overdraft (secured)		1,967	1,963
Other borrowings (unsecured)		22,045	29,735
Accounts payable, other payables and accrued charges	14	31,331	24,511
Retention money payables		-	958
Amount due to a related company		890	890
Obligations under finance leases		20	290
Taxation payable		258	258
		<b>56,511</b>	58,605
<b>Net current assets</b>		<b>45,025</b>	20,550
<b>Total assets less current liabilities</b>		<b>45,500</b>	21,215
<b>Non-current liabilities</b>			
Obligations under finance leases		33	179
<b>Net assets</b>		<b>45,467</b>	21,036
<b>Equity</b>			
Share capital		46,407	46,407
Reserves		(940)	(25,371)
<b>Total equity</b>		<b>45,467</b>	21,036

# Condensed Consolidated Cash Flow Statement

For the six months ended 30 September 2008

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
NET CASH (USED IN) GENERATED FROM OPERATING ACTIVITIES	<b>(2,940)</b>	3,857
NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES	<b>8,182</b>	(1,226)
NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES	<b>(8,106)</b>	8,128
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<b>(2,864)</b>	10,759
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	<b>24,567</b>	5,358
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<b>21,703</b>	16,117
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	<b>23,670</b>	18,126
Bank overdrafts	<b>(1,967)</b>	(2,009)
	<b>21,703</b>	16,117

## Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2008

	<b>Share capital</b>	<b>Share premium</b>	<b>Share option reserve</b>	<b>Special reserve</b>	<b>Capital reserve</b>	<b>Accumulated losses</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
As at 1 April 2007	46,407	233,184	1,208	13,524	1,863	(269,323)	26,863
Net loss for the period	-	-	-	-	-	(4,328)	(4,328)
As at 30 September 2007	46,407	233,184	1,208	13,524	1,863	(273,651)	22,535
As at 1 April 2008	46,407	233,184	1,208	13,524	1,863	(275,150)	21,036
Net profit for the period	-	-	-	-	-	24,431	24,431
As at 30 September 2008	46,407	233,184	1,208	13,524	1,863	(250,719)	45,467

# Notes to the Condensed Consolidated Financial Statements

## 1. BASIS OF PREPARATION

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

## 2. SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 March 2008.

In the current interim period, the Group has applied, for the first time, the following new amendments and interpretations (“new HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning on 1 April, 2008.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction

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

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs <sup>1</sup>
HKAS 1 (Revised)	Presentation of Financial Statements <sup>2</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>2</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>3</sup>
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation <sup>2</sup>
HKAS 39 (Amendment)	Eligible Hedged Items <sup>3</sup>
HKAS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate <sup>2</sup>
HKAS 2 (Amendment)	Vesting Conditions and Cancellations <sup>2</sup>
HKAS 3 (Revised)	Business Combinations <sup>3</sup>
HKFRS 8	Operating Segments <sup>2</sup>
HK(IFRIC) – Int 13	Customer Loyalty Programmes <sup>4</sup>
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate <sup>2</sup>
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation <sup>5</sup>

# Notes to the Condensed Consolidated Financial Statements

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

- <sup>1</sup> Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5. Effective for annual periods beginning on or after 1 July 2009
- <sup>2</sup> Effective for annual periods beginning on or after 1 January 2009
- <sup>3</sup> Effective for annual periods beginning on or after 1 July 2009
- <sup>4</sup> Effective for annual periods beginning on or after 1 July 2008
- <sup>5</sup> Effective for annual periods beginning on or after 1 October 2008

The Directors are currently assessing the impact of the above new standards, amendments and interpretations but are not yet in position to state whether they would have material impact on the unaudited condensed consolidated financial statements.

## 3. TURNOVER AND SEGMENTAL INFORMATION

For management purposes, the Group is currently organised into three operating divisions – electrical engineering contracting, sale of electrical goods and securities brokerage and financing. These divisions form the basis on which the Group reports its primary segment information.

### Business segments

	Unaudited			Consolidated HK\$'000
	For the six months ended 30 September 2008			
	Electrical engineering contracting HK\$'000	Sale of electrical goods HK\$'000	Securities brokerage and financing HK\$'000	
<b>Turnover</b>	<b>403</b>	<b>671</b>	<b>3,118</b>	<b>4,192</b>
<b>Results</b>				
Segment results	<b>(872)</b>	<b>(15)</b>	<b>107</b>	<b>(780)</b>
Reversal of impairment loss on investment deposit				<b>8,000</b>
Reversal of (charge for) impairment loss on investment held for trading				<b>22,413</b>
Unallocated corporate income				<b>174</b>
Unallocated corporate expense				<b>(3,583)</b>
Finance costs				<b>(1,793)</b>
Profit before taxation				<b>24,431</b>
Taxation				<b>-</b>
Net profit for the period				<b>24,431</b>



# Notes to the Condensed Consolidated Financial Statements

## 3. TURNOVER AND SEGMENTAL INFORMATION *(Continued)*

### Business segments *(Continued)*

	Unaudited			Consolidated HK\$'000
	For the six months ended 30 September 2007			
	Electrical engineering contracting HK\$'000	Sale of electrical goods HK\$'000	Securities brokerage and financing HK\$'000	
<b>Turnover</b>	313	751	4,143	5,207
<b>Results</b>				
Segment results	(1,765)	(40)	502	(1,303)
Reversal of impairment loss on investment deposit				2,500
Charge for impairment loss on investment held for trading				(12)
Unallocated income				234
Unallocated expense				(3,826)
Finance costs				(1,921)
Loss before taxation				(4,328)
Taxation				-
Net loss for the period				(4,328)

## 4. REVERSAL OF IMPAIRMENT LOSSES ON INVESTMENT DEPOSITS

	Six months ended	
	30 September	
	2008	2007
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Partial refund on earnest money for proposed acquisition of interest in a PRC company engaged in software development <i>(note)</i>	8,000	2,000
Others	-	500
	8,000	2,500

Note: On 28 September 2007, the company's wholly owned subsidiary, Excellent Legend Limited entered into a settlement agreement with the third party and the guarantor. Pursuant to the settlement agreement, the third party shall refund the earnest money in full (HK\$20,000,000) without interest to Excellent Legend Limited by 10 instalments of HK\$2,000,000 each. Up to date of this report, HK\$16,000,000 had been refunded.

## Notes to the Condensed Consolidated Financial Statements

### 5. REVERSAL OF (CHARGE FOR) IMPAIRMENT LOSSES ON INVESTMENT HELD FOR TRADING

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Non-voting cumulative redeemable convertible preference shares of China Sciences Conservational Power Limited	<b>24,800</b>	–
Ordinary shares of China Sciences Conservational Power Limited	<b>(2,387)</b>	–
Other listed investment at fair value	–	(12)
	<b>22,413</b>	(12)

### 6. PROFIT (LOSS) FROM OPERATIONS

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Profit (Loss) from operations has been arrived at after charging:		
Depreciation of property, plant and equipment	<b>162</b>	312
Cost of inventories recognised as expenses	<b>640</b>	640
Staff costs including directors' fee and emoluments	<b>2,863</b>	4,136
Lease expense	<b>316</b>	409

### 7. FINANCE COSTS

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Interest on bank borrowings and overdrafts wholly repayable within five years	<b>40</b>	68
Interest on obligations under finance leases	<b>14</b>	17
Interest on other borrowing	<b>1,739</b>	1,836
	<b>1,793</b>	1,921

# Notes to the Condensed Consolidated Financial Statements

## 8. TAXATION

No provision for Hong Kong profits tax for the current period has been made as the Group did not have any assessable profit during the period. Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

## 9. DIVIDENDS

No dividends were paid or declared during the period. The Directors do not recommend the payment of any interim dividend for the six months ended 30 September 2008 (For the six months ended 30 September 2007: Nil).

## 10. PROFIT PER SHARE

The profit per share is calculated based on the profit for the period amounting to approximately HK\$24,431,000 (For the six months ended 30 September 2007: loss of approximately HK\$4,328,000) and on 464,070,000 ordinary shares in issue throughout the two six-month periods ended 30 September 2008 and 2007.

No diluted profit per share has been presented. The exercise of the Company's outstanding share options would result in a decrease in the profit per share.

## 11. ADDITIONS TO PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$28,000 on property, plant and equipment (approximately HK\$897,000 for the six months ended 30 September 2007).

## 12. INVESTMENTS HELD FOR TRADING

	<b>30 September 2008 HK\$'000</b>	31 March 2008 HK\$'000
<b>Investments in CSCPL (Notes)</b>		
Non-voting cumulative redeemable convertible preference shares ("Preference Shares")		
– unlisted, at cost	<b>60,800</b>	60,800
Ordinary Shares – listed, at cost	<b>5,700</b>	5,700
	<b>66,500</b>	66,500
Less: Impairment losses	<b>(5,333)</b>	(27,744)
	<b>61,167</b>	38,756
Other listed investment at fair value	<b>-</b>	28
	<b>61,167</b>	38,784

Notes:

- (a) The Preference Shares issued by China Sciences Conservational Power Limited ("CSCPL") were fully redeemed by CSCPL at its principal value of HK\$60,800,000 in October 2008.
- (b) The carrying value of 7,500,000 CSCPL Ordinary Shares is estimated by the Directors at cost of HK\$5,700,000 less impairment loss HK\$5,332,500 as at 30 September 2008.

# Notes to the Condensed Consolidated Financial Statements

## 13. ACCOUNTS RECEIVABLE

	<b>30 September 2008 HK\$'000 (unaudited)</b>	31 March 2008 HK\$'000 (audited)
Accounts receivable	<b>1,025</b>	850
Less: Provision for doubtful debts	<b>(551)</b>	(551)
	<b>474</b>	299
Accounts receivable from the business of dealing in securities:		
– Clearing houses and cash clients	<b>1,202</b>	2,635
– Secured margin loans	<b>10,820</b>	7,420
Less: Impairment allowance on accounts receivable from the business of dealing in securities		
– Secured margin loans	<b>(51)</b>	(51)
	<b>11,971</b>	10,004
	<b>12,445</b>	10,303

The settlement terms of accounts receivable arising from the business of dealing in securities are two days after trade date.

The ageing analysis of the accounts receivable at the balance sheet date is as follows:

	<b>30 September 2008 HK\$'000 (unaudited)</b>	31 March 2008 HK\$'000 (audited)
Current and up to 30 days	<b>905</b>	1,730
31 to 60 days	<b>6</b>	38
61 to 90 days	<b>250</b>	123
Over 90 days	<b>515</b>	1,043
	<b>1,676</b>	2,934

Loans to margin clients are secured by clients' pledged securities, bear variable interest at commercial rates and repayable on demand. No ageing analysis is disclosed as in the opinion of the Directors of the Company, the ageing analysis does not give additional value in view of the nature of business of share margin financing.

# Notes to the Condensed Consolidated Financial Statements

## 14. ACCOUNTS PAYABLE, OTHER PAYABLES AND ACCRUED CHARGES

	<b>30 September 2008 HK\$'000 (unaudited)</b>	31 March 2008 HK\$'000 (audited)
Accounts payable	<b>17,174</b>	3,665
Accounts payable from the business of dealing in securities: – Margin and cash clients	<b>4,085</b>	12,051
Other payables and accrued charges	<b>10,072</b>	8,795
	<b>31,331</b>	24,511

The ageing analysis of accounts payable as at the balance sheet date is as follows:

	<b>30 September 2008 HK\$'000 (unaudited)</b>	31 March 2008 HK\$'000 (audited)
Current and up to 30 days	<b>13,228</b>	56
31 to 60 days	<b>57</b>	71
61 to 90 days	<b>117</b>	53
Over 90 days	<b>3,772</b>	3,485
	<b>17,174</b>	3,665

Accounts payable to margin and cash clients arising from the business of dealing in securities bear variable interest at commercial rates, and repayable on demand subsequent to settlement date. No ageing analysis is presented as in the opinion of the Directors, the ageing analysis does not give additional value in view of the nature of this business.

The settlement terms of accounts payable arising from the business of dealing in securities are two days after trade date.

# Notes to the Condensed Consolidated Financial Statements

## 15. OPERATING LEASE COMMITMENTS

As at the balance sheet date, the Group had commitments for future minimum lease payments under noncancellable operating leases which fall due as follows:

	<b>30 September 2008 HK\$'000 (unaudited)</b>	31 March 2008 HK\$'000 (audited)
Land and buildings:		
Operating leases which expire:		
– within one year	<b>351</b>	290
– in the second to fifth year inclusive	<b>–</b>	179
	<b>351</b>	469

## 16. RELATED PARTY TRANSACTIONS

	<b>Six months ended 30 September 2008 HK\$'000 (unaudited)</b>	2007 HK\$'000 (unaudited)
Margin financing interest received from one Director of the Company for securities trading accounts	<b>16</b>	17

## 17. COMPARATIVE FIGURES

Certain comparative figures were re-classified to conform with current period's presentation.

## 18. REVIEW OF INTERIM FINANCIAL REPORT

The condensed interim financial report are unaudited, but have been reviewed by the Audit Committee.

## 19. APPROVAL OF INTERIM FINANCIAL REPORT

The interim financial report was approved by the Board on 19 December 2008.

## Interim Dividend

The Directors of the Company do not recommend the payment of any interim dividend for the six months ended 30 September 2008 (2007: Nil).

## Management Discussion and Analysis

### REVIEW OF OPERATIONS

During the period, the Group recorded an unaudited profit attributable to shareholders of approximately HK\$24,431,000 (2007: loss of approximately HK\$4,328,000). The decrease in loss as compared to the same period in 2007 was mainly attributable to the written back of impairment loss on an investment in preference shares with principal value of HK\$60,800,000 issued by China Sciences Conservational Power Limited in the amount of HK\$24,800,000.

### SECURITIES BROKERAGE AND FINANCING BUSINESS

The income from these operations decreased to approximately HK\$3,118,000 from approximately HK\$4,143,000 in the corresponding period of last year, representing a decrease of 24.7%. Due to the overall shrinking in turnover of stock market in Hong Kong, the securities brokerage business was being affected as well. Turnover from securities brokerage and margin financing business accounted for 74.4% (2007: 79.6%) of the total turnover of the Group.

### ELECTRICAL ENGINEERING CONTRACTING BUSINESS

During the period, the electrical engineering contracting business had completed all the contracts on hand. The electrical engineering contracting business generated a turnover of approximately HK\$403,000, representing an increase of 28.7% from HK\$313,000 in the corresponding period in 2007. Turnover from electrical engineering contracting business accounted for 9.6% (2007: 6.0%) of the total turnover of the Group.

### ELECTRICAL MATERIALS & COMPONENT TRADING BUSINESS

The sales from electrical materials and components trading business decreased by 10.6% to approximately HK\$671,000 as compared to HK\$751,000 in the corresponding period of last year. Turnover from electrical materials and components trading business accounted for 16.0% (2007: 14.4%) of the total turnover of the Group.

# Management Discussion and Analysis *(Continued)*

## FINANCIAL REVIEW AND ANALYSIS

### Financing

#### **Liquidity, Financial Resources and Gearing**

The Group's total current assets and current liabilities were approximately HK\$101,536,000 (as at 31 March 2008: HK\$79,155,000) and approximately HK\$56,511,000 (as at 31 March 2008: HK\$58,605,000) respectively, while the current ratio was about 1.80 times (as at 31 March 2008: 1.35 times).

As at 30 September 2008, the Group's aggregate cash balance amounted to approximately HK\$7,946,000 (as at 31 March 2008: HK\$15,390,000), representing 7.8% (as at 31 March 2008: 19.4%) of total current assets.

As shown in the Group's consolidated balance sheet as at 30 September 2008, total equity amounted to approximately HK\$45,467,000 (as at 31 March 2008: HK\$21,036,000); whereas the Group's total borrowing was approximately HK\$24,065,000 (as at 31 March 2008: HK\$32,167,000) only, which mainly comprised of HK dollar overdrafts, borrowings and finance lease obligations. Bank overdrafts carry interest on the prime lending rate, other borrowings carry interest at fixed rate and finance charges are fixed on the date the finance leases are entered into.

As at 30 September 2008, the gearing ratio, defined as total debts over total assets, was approximately 23.6% (as at 31 March 2008: 40.3%). The decrease in the gearing ratio was mainly due to the increase in total assets as a result of a written back of impairment loss of an investment in preference shares during the period.

#### **Foreign Exchange Management**

The Group's purchases from overseas suppliers are always subject to foreign currency fluctuations. The Group monitors the risks in foreign exchange by way of placing forward foreign exchange contracts. Since the Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Group basically has not changed its foreign exchange management policy. The risks in foreign exchange within this period were reduced because of the reduction on trade activities leading to decrease in purchases from overseas. As at 30 September 2008, the Group had no outstanding forward foreign exchange contracts on hand.

#### **Contingent Liabilities**

At 30 September 2008, the Group had no material contingent liabilities.



## Management Discussion and Analysis *(Continued)*

### Capital Commitments

On 16 September 2008, Expo Resources Inc. ("Expo"), a wholly owned subsidiary of the Company has entered into a joint venture agreement with an independent third party. Pursuant to which the joint venture parties ("Parties") agreed to procure the joint venture company ("JV Company") to carry on the following business activities upon incorporation of the JV Company:

- (a) Type 1 regulated activities (dealing in securities) as defined in the Securities and Futures Ordinance ("SFO");
- (b) Type 4 regulated activities (advising on securities) as defined in SFO;
- (c) Type 9 regulated activities (asset management) as defined in the SFO; and
- (d) insurance broker as defined in the Insurance Companies Ordinance (Chapter 41 of the Laws of Hong Kong).

At 30 September 2008, Expo shall subscribe for 75,000 shares in the JV Company for an aggregate price of HK\$75,000 representing 75% interest in the JV Company.

### Pledge of Assets

At 30 September 2008, the Group had pledged bank deposits of approximate HK\$2,000,000 (At 31 March 2008: approximately HK\$2,000,000) to secure certain bank facilities available to the Group.

### Staff

As at 30 September 2008, the Group had a total of 20 employees. The Group remunerated employees based on the industry practice and individual's performance. Staff benefits include contributions to retirement benefit scheme, medical allowances and other fringe benefits.

## Prospect

The Group is envisioned to become a renowned full range financial services provider in the financial industry in long term. The corporate strategy of the Company is to strengthen its existing securities brokerage and margin financing business while in a ready position to broaden its business scope either by self-development or through vertical and/or horizontal acquisition.

In line with such corporate strategy, during the period under review, the Company underwent a series of proposed acquisitions and fund raising exercises, i.e. to acquire the majority stake of Excalibur Securities Limited and Excalibur Futures Limited, placing of convertible bonds and placing of new shares. All these proposed acquisitions and fund raising exercises have yet to be completed and are subject to resumption of trading of Shares of the Company on the Stock Exchange. Also, the Company has entered into a joint venture agreement for the formation of a company to provide financial related services such as dealing in securities, advising on securities, asset management and insurance brokerage.

Seeing that there are tremendous opportunities and the robust economy in the PRC, the Directors are also considering to step into the futures brokerage services in the PRC. A non-binding Memorandum of Understanding was entered into on 9 December 2008 with the intent to acquire at least 20% interest in a PRC company engaged in futures brokerage business.

As mentioned in the announcement issued by the Company on 10 December 2008, it is with pleasure to announce that the Company is allowed to proceed with the Resumption Proposal subject to fulfillment of certain conditions set out therein to the satisfaction of the Stock Exchange prior to the resumption of trading of Shares on the Stock Exchange. The management is prudently optimistic that the Company can fulfill such conditions and the Company can resume trading in near future.

The financial tsunami gives a great blow to the whole society especially the financial industry, not only in Hong Kong, but all around the world. Viewing that both the PRC government and the Hong Kong government have shown strong confidence and active support to strengthen Hong Kong's economy, the Directors are prudently optimistic about the future of the Hong Kong stock market and the PRC economy and therefore, the development of the Group in long term gradually.

## Directors' Interests in Shares, Underlying Shares and Debentures

As at 30 September 2008, save as certain nominee shares in subsidiaries held by the Directors in trust for the Group, none of the Directors of the Company and/or any of their respective associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which are required to be entered into the register kept by the Company pursuant to section 352 of the SFO or any interests which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code in the Listing Rules or under Division 7 and 8 of Part XV of the SFO.

## Substantial Shareholders' Interests

As at 30 September 2008, according to the register kept by the Company pursuant to Section 336 of the SFO and, so far as is known to the Directors, the persons or entities who had an interest or a short position in the shares or the underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were, 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 the Company, or of any other company which is a member of the Group, or in any options in respect of such share capital were as follows:

### Long position in the shares of the Company

Name of Shareholder(s)	Number of Shares/ Underlying Shares	Approximate percentage of total issued share capital as at 30 September 2008
Good Treasure Holdings Limited (Note 1)	117,000,000	25.21%
Kingston Securities Limited (Note 2)	500,000,000	107.74%
Get Nice Securities Limited (Note 3)	80,000,000	17.24%
AWH Fund Ltd. (Note 4)	27,366,000	5.90%
Mr. Lao Chio Kuan (Note 5)	200,000,000	43.10%

Notes:

1. Good Treasure Holdings Limited ("Good Treasure") is a company incorporated in the British Virgin Islands and whose entire equity interest is beneficially owned by Mr. Li Chun Sing, Andrew.

Pursuant to a sale and purchase agreement entered into between Billion Boom Investments Limited ("BBIL") and Good Treasure on 14 August 2007, BBIL sold and Good Treasure purchased 63,900,000 shares of HK\$0.1 each in the Company (representing approximately 13.77% of the Company's issued share capital), at a total consideration of HK\$16,786,530.00. On the same day, Good Treasure also acquired an aggregate of 44,100,000 shares from three other shareholders of the Company. Hence, as at 30 September 2008, Good Treasure is interested in 108,000,000 shares of the Company (representing approximately 23.27% of the Company's issued share capital).

Besides, on 5 November 2007, Good Treasure, Highworth Venture Limited ("Highworth") and BBIL entered into a Deed of Assignment (the "Assignment"), pursuant to which, BBIL assigned a call option granted by Highworth to Good Treasure. Under the Assignment, Good Treasure may exercise the call option to acquire the entire 9,000,000 shares (representing approximately 1.94% of the Company's issued share capital) at an exercise price of HK\$1 in total. The share certificates in respect of the 9,000,000 shares were reported to have been lost and the replacement certificates were being applied for.

To sum up, as at the date hereof Good Treasure is deemed to be interested in an aggregate of 117,000,000 shares (representing approximately 25.21% of the issued share capital of the Company) under the SFO.

2. On 27 February 2008, the Company entered into a placing agreement (as amended) with Kingston Securities Limited for the placing of convertible notes in the principal amount of HK\$50 million, convertible into 500 million new shares of the Company (subject to adjustment). Completion of which is subject to, among other things, the Stock Exchange having agreed in principle for the resumption of trading in the Shares of the Company on the Stock Exchange.

Kingston Securities Limited is controlled by Messrs. Chu Yuet Wah and Ma Siu Fong, and hence, they are deemed to be interested in the interest in the shares of the Company held by Kingston Securities Limited under the SFO.

## Substantial Shareholders' Interests *(Continued)*

3. On 10 September 2008, the Company entered into a placing agreement (as amended) with Get Nice Securities Limited for the placing of 80,000,000 new shares. Completion of the said placing is subject to, among other things, resumption of trading in the Shares of the Company on the Stock Exchange.

Get Nice Securities Limited is controlled by Get Nice Incorporated, a company incorporated in the British Virgin Islands with limited liability, which in turn is controlled by Get Nice Holdings Limited, a public company whose shares are listed on the Stock Exchange. Hence, each of Get Nice Incorporated and Get Nice Holdings Limited is deemed to be interested in the interest in the shares of the Company held by Get Nice Securities Limited.

4. The interest of AWH Fund Ltd. in the Company is based on the information available on the website of the Stock Exchange as at 30 September 2008 and 19 December 2008.
5. On 27 February 2008, the Group entered into a sale and purchase agreement (as amended) with Mr. Lao Chio Kuan (Vendor) for the sale and purchase of 51% of the issued share capital of Excalibur Securities Limited. As consideration for such purchase, the Group agreed to issue convertible notes in the principal amount of HK\$20 million, convertible into 200 million new shares of the Company (subject to adjustment). Completion of which is subject to, among other things, the Stock Exchange being agreed in principle for the resumption of trading in the Shares of the Company on the Stock Exchange.

Save as disclosed herein and so far as is known to the Directors as at 30 September 2008, no person had an interest or a short position in the shares or the underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or no person 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 the Company, or of any other company which is a member of the Group, or in any options in respect of such share capital.

## Share Option Scheme

The existing share option scheme (the "Option Scheme") was approved and adopted by the shareholders of the Company on 12 February 2003. The Option Scheme is valid and effective for a period of 10 years after the date of adoption.

Under the terms of the Option Scheme, the directors of the Company may, at their discretion, grant options to the full-time employees, including executive directors of the Company and its subsidiaries, to subscribe for shares of the Company for recognition of their contribution as incentives or rewards. Options granted must be taken up within 30 days of the date of grant. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option which will entitle the holders to subscribe for shares of the Company during a period of 5 years commencing on the date of acceptance of the option at a price not less than the higher of (i) the nominal value of the shares of the Company; (ii) the closing price of the shares of the Company on the Stock Exchange on the date of grant; and (iii) the average of the closing prices of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of the grant of the option. The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Option Scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time. Subject to the shareholders' approval, the maximum number of shares in respect of which options may be granted under the Option Scheme shall not exceed 10% of the shares in issue as at the date of the approval, or the maximum number of shares in respect of which options may be granted to any employee may not exceed 1% of the shares in issue from time to time in a 12-month period. Subject to the entitlements of dividends, bonus, rights declared before the exercise of options, any shares allotted and issued on the exercise of an option will rank *pari passu* with the other shares in issue at the date of exercise of the relevant option.

Ordinary resolution relating to the refreshment of the limit in respect of the granting of share options under the Option Scheme was duly passed at the extraordinary general meeting held on 18 July 2008.

As at 30 September 2008, the number of shares in respect of which options had been granted and remaining outstanding under the Option Scheme was 13,500,000 (2007: 13,700,000) representing about 2.91% (2007: about 2.95%) of the shares of the Company in issue as at the date of this report.

## Share Option Scheme *(Continued)*

A summary of the movements during the period in the Company's share options is as follows:

Option type	Number of share options				Outstanding at 30 September 2008
	Outstanding at 1 April 2008	Granted during the period	Lapsed during the period	Exercised during the period	
2004B	200,000	-	200,000	-	-
2004C	2,100,000	-	-	-	2,100,000
2006A	11,400,000	-	-	-	11,400,000
Total	13,700,000	-	200,000	-	13,500,000

Details of specific categories of options are as follows:

Option type	Date of grant	Exercise period	Closing price immediately before/on the date of grant HK\$	Exercise price per share HK\$
2004B	27 August 2003	27 August 2003 to 26 August 2008	1.170	1.3060
2004C	16 January 2004	16 January 2004 to 15 January 2009	0.840	0.8520
2006A	2 August 2005	2 August 2005 to 1 August 2010	0.340	0.3520

Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

## Corporate Governance

The Group is committed to ensuring high standard of corporate governance as the Directors believe it would improve effectiveness and efficiencies in the overall business performance of the Group such that the Group could become more competitive in markets and enhancing shareholders' value in consequence.

During the period, the Directors are of the opinion that the Company has complied with the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules throughout the six months ended 30 September 2008.

### INTERNAL CONTROLS

In response to the comments from the Stock Exchange regarding the Company's application for resumption of trading in the Shares of the Company, the Company has engaged an independent professional adviser to conduct a special review of the financial reporting system and internal control procedures of the Group. Such review, along with a follow-up review, is in progress. The Board is currently reviewing the special review report, findings of which will be disclosed by way of announcement when appropriate.

### AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises Messrs. Ng Kay Kwok, Lam Ka Wai, Graham as well as Tam B Ray, Billy, all of whom are Independent Non-Executive Directors. Mr. Ng Kay Kwok is the Chairman of the Audit Committee.

The audit committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the unaudited interim financial statements for the six months ended 30 September 2008.

### MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code under Appendix 10 to the Listing Rules as the code of conduct regarding directors' securities transactions. All Directors of the Company confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code during the six months ended 30 September 2008.

### PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the period.

By order of the Board  
**CHINA FORTUNE GROUP LIMITED**  
**Ng Cheuk Fan, Keith**  
*Managing Director*

Hong Kong, 19 December 2008