中國富強集團有限公司
China Fortune Group Limited

*(incorporated in the Cayman Islands with limited liability)*
**(Stock Code: 290)**
*Website: http://www.290.com.hk*

# ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2010

The Board of Directors (the "Board") of China Fortune Group Limited (the "Company") announces that the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2010 together with the comparative figures for the previous year are as follows:–

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*FOR THE YEAR ENDED 31 MARCH 2010*

| | *NOTES* | **2010** **HK$'000** | 2009 HK$'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Turnover | 2 | **80,488** | 10,676 |
| Cost of securities and futures brokerage and margin financing | | **(23,276)** | (3,590) |
| Other revenue | 4 | **13,176** | 2,188 |
| Depreciation and amortisation | | **(3,023)** | (725) |
| Salaries and allowances | | **(26,926)** | (6,304) |
| Reversal of impairment loss on investment deposits | | **3,500** | 8,500 |
| Change in fair value of financial assets designated as fair value through profit or loss | | **–** | 24,800 |
| Loss on disposal of investment held for trading | | **(1,002)** | – |
| Change in fair value of derivative component of convertible loan note | 13 | **(18,525)** | – |
| Discounts on acquisitions of subsidiaries | | **–** | 863 |
| Discounts on acquisition of additional equity interest in a subsidiary | | **4,616** | – |
| Gain on disposal of subsidiaries | | **–** | 61 |
| Gain on deemed disposal of partial interests in a subsidiary | | **–** | 17 |
| Other operating and administrative expenses | | **(37,238)** | (16,490) |
| Finance costs | 5 | **(15,454)** | (4,080) |
| (Loss) profit before taxation | 6 | **(23,664)** | 15,916 |
| Taxation | 7 | **(4,491)** | (115) |

| | NOTES | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| (Loss) profit for the year and other comprehensive (expenses) income for the year from continuing operations | | **(28,155)** | 15,801 |
| **Discontinued operation** | | | |
| Profit (loss) and other comprehensive income (expenses) for the year from discontinued operation | | **6,732** | (88) |
| Total comprehensive (expenses) income for the year | | **(21,423)** | 15,713 |
| Attributable to: | | | |
| Owners of the Company | | **(23,711)** | 16,224 |
| Minority interests | | **2,288** | (511) |
| | | **(21,423)** | 15,713 |
| | | ***HK cents*** | *HK cents* |
| (Loss) earnings per share | | | |
| From continuing and discontinued operations | | | |
| Basic | | **(2.24)** | 3.23 |
| Diluted | | **(2.24)** | 3.22 |
| From continuing operations | | | |
| Basic | | **(2.88)** | 3.25 |
| Diluted | | **(2.88)** | 0.02 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*AS AT 31 MARCH 2010*

| | NOTES | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Plant and equipment | | **5,829** | 4,792 |
| Intangible assets | | **19,813** | 980 |
| Other non-current assets | | **1,832** | 2,262 |
| Deferred tax | | **–** | 61 |
| Goodwill | | **–** | 2,554 |
| Available-for-sale financial assets | | **2,200** | – |
| | | **29,674** | 10,649 |
| Current assets | | | |
| Investments held for trading | | **1,170** | 442 |
| Trade receivables | *9* | **351,389** | 90,320 |
| Other receivables, deposits and prepayments | | **15,384** | 15,638 |
| Investment deposits | *10* | **66,619** | 42,407 |
| Amount due from a minority shareholder of a subsidiary | | **500** | 125 |
| Amounts due from directors | | **1,340** | 776 |
| Bank balances and cash – trust | | **112,409** | 60,211 |
| Bank balances and cash – general | | **34,052** | 22,138 |
| | | **582,863** | 232,057 |
| Assets classified as held for sale | | **72,575** | – |
| | | **655,438** | 232,057 |
| Current liabilities | | | |
| Bank overdrafts – secured | | **24** | – |
| Trade payables, other payables and accruals | *11* | **146,101** | 83,139 |
| Derivative component of convertible loan note | | **63,084** | – |
| Other borrowings | | **172,800** | – |
| Amount due to a director | | **81** | 10 |
| Provisions | | **940** | 940 |
| Tax payable | | **3,506** | 850 |
| | | **386,536** | 84,939 |
| Liabilities associated with assets held for sale | | **39,052** | – |
| | | **425,588** | 84,939 |
| Net current assets | | **229,850** | 147,118 |
| Total assets less current liabilities | | **259,524** | 157,767 |
| Capital and reserves | | | |
| Share capital | | **140,067** | 75,607 |
| Reserves | | **12,598** | 29,313 |
| Equity attributable to owners of the Company | | **152,665** | 104,920 |
| Minority interests | | **165** | 29,781 |
| Total equity | | **152,830** | 134,701 |
| Non-current liability | | | |
| Convertible loan notes | | **106,694** | 23,066 |
| | | **259,524** | 157,767 |

## 1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised standards, amendments to standards and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

| | |
|---|---|
| Hong Kong Accounting Standard ("HKAS") 1 (Revised 2007) | Presentation of Financial Statements |
| HKAS 23 (Revised 2007) | Borrowing Costs |
| HKAS 32 and HKAS 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation |
| HKFRS 1 and HKAS 27 (Amendments) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate |
| HKFRS 2 (Amendment) | Vesting Conditions and Cancellations |
| HKFRS 7 (Amendment) | Improving Disclosures about Financial Instruments |
| HKFRS 8 | Operating Segments |
| HK(IFRIC) – Interpretation ("INT") 9 and HKAS 39 (Amendments) | Embedded Derivatives |
| HK(IFRIC) – INT 13 | Customer Loyalty Programmes |
| HK(IFRIC) – INT 15 | Agreements for the Construction of Real Estate |
| HK(IFRIC) – INT 16 | Hedges of a Net Investment in a Foreign Operation |
| HK(IFRIC) – INT 18 | Transfers of Assets from Customers |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009 |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39 |

In addition, in the current year, the Group has elected to early adopt the amendment to HKFRS 5 as part of improvements to HKFRSs 2009 (adopted in advance of effective date of 1 January 2010).

Except as described below, the adoption of the new and revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

**New and revised HKFRSs affecting presentation and disclosure only**

***HKAS 1 (Revised 2007) Presentation of Financial Statements***

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

***Improving Disclosures about Financial Instruments (Amendments to HKFRS 7 Financial Instruments: Disclosures)***

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosures required in relation to liquidity risk. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

*Early adoption of amendment to HKFRS 5 as part of Improvements to HKFRSs 2009*

The amendment has clarified that HKFRS 5 has specified the disclosure required in respect of disposal groups classified as discontinued operations. Disclosures requirements in other HKFRSs do not generally apply to such disposal groups.

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

| | |
|---|---|
| HKFRSs (Amendments) | Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008[1] |
| HKFRSs (Amendments) | Improvements to HKFRSs 2009[2] |
| HKFRSs (Amendments) | Improvements to HKFRSs 2010[3] |
| HKAS 24 (Revised) | Related Party Disclosures[6] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[1] |
| HKAS 32 (Amendment) | Classification of Rights Issues[5] |
| HKAS 39 (Amendment) | Eligible Hedged Items[1] |
| HKFRS 1 (Revised) | First Time Adoption of HKFRSs[1] |
| HKFRS 1 (Amendment) | Additional Exemptions for First-time Adopters[4] |
| HKFRS 1 (Amendment) | Limited Exemption from Comparative HKFRS 7 Disclosures for First – time Adopters[7] |
| HKFRS 2 (Amendment) | Group Cash-settled Share-based Payment Transactions[4] |
| HKFRS 3 (Revised) | Business Combinations[1] |
| HKFRS 9 | Financial Instruments[8] |
| HK(IFRIC) – INT 14 (Amendment) | Prepayments of a Minimum Funding Requirement[6] |
| HK(IFRIC) – INT 17 | Distributions of Non-cash Assets to Owners[1] |
| HK(IFRIC) – INT 19 | Extinguishing Financial Liabilities with Equity Instruments[7] |

1 Effective for annual periods beginning on or after 1 July 2009.
2 Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.
3 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.
4 Effective for annual periods beginning on or after 1 January 2010.
5 Effective for annual periods beginning on or after 1 February 2010.
6 Effective for annual periods beginning on or after 1 January 2011.
7 Effective for annual periods beginning on or after 1 July 2010.
8 Effective for annual periods beginning on or after 1 January 2013.

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

## 2. TURNOVER

Turnover represents the net amounts received and receivable for services provided and goods sold in the normal course of business. An analysis of the Group's turnover for the year is as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Income from securities, futures and insurance brokerage business | **63,804** | 8,847 |
| Margin interest income from securities and futures brokerage business | **16,684** | 1,829 |
| | **80,488** | 10,676 |

## 3. SEGMENT INFORMATION

The Group has adopted HKFRS 8 Operating Segments with effect from 1 April 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operation decision maker for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor Standard (HKAS 14, Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

For management purposes, the Group is currently organised into a single as securities, futures and insurance brokerage and margin financing in Hong Kong and all revenue, expenses, results, assets and liabilities and capital expenditures are predominantly attributable to this single operating segment. Accordingly, no segment analysis by business and geographical information is presented.

On 31 January 2010, the Group completed disposal of two operating divisions which were engaged in (i) electrical engineering contracting and (ii) sale of electrical goods.

Each of these discontinued operations was reported as a separate business segment under HKAS 14. For HKFRS 8 reporting purposes, on the basis of internal reports reviewed by the chief operating decision maker, these discontinued operations did not constitute separate operating segments.

For both years ended 31 March 2010 and 2009, the Group had not any customers with whom transactions had exceed 10% of the Group's aggregate revenue during the year.

## 4. OTHER REVENUE

| | 2010 | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Continuing operations** | | |
| Management fees income | **6,061** | – |
| Profit guarantee compensation | **3,087** | – |
| Handling charges | **498** | 38 |
| Interest income | **4** | 110 |
| Write back of long outstanding trade payables, other payables and accruals | **247** | – |
| Net exchange gain | **–** | 723 |
| Gain on disposal of plant and equipment | **–** | 114 |
| Gain on disposal of investment held for trading | **–** | 1 |
| Gain on fair value changes of investments held for trading | **728** | – |
| Write back of long outstanding amount due to a related company | **–** | 890 |
| Reversal of impairment loss recognised in respect of trade receivables | **459** | – |
| Sub-letting income | **2,004** | 308 |
| Sundry income | **88** | 4 |
| | **13,176** | 2,188 |

## 5. FINANCE COSTS

| | 2010 | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Continuing operations** | | |
| Interest on: | | |
| Bank overdrafts | **75** | - |
| Other borrowings | **3,287** | 3,262 |
| Obligations under finance lease | **–** | 44 |
| Imputed interest expenses on convertible loan notes | **12,092** | 774 |
| | **15,454** | 4,080 |

## 6. (LOSS) PROFIT BEFORE TAXATION

(Loss) profit before taxation has been arrived at after charging:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Continuing operations** | | |
| Auditor's remuneration | | |
| – current year | **638** | 474 |
| – under-provision in prior years | **25** | – |
| | **663** | 474 |
| Depreciation of property, plant and equipment | | |
| – owned assets | **2,356** | 610 |
| – assets held under finance lease | **–** | 115 |
| | **2,356** | 725 |
| Amortisation of intangible assets | **667** | – |
| Total staff costs: | | |
| – directors' remuneration | **3,316** | 1,973 |
| – salaries and allowance | **22,765** | 4,154 |
| – retirement benefit scheme contributions (excluding directors) | **845** | 177 |
| | **26,926** | 6,304 |
| Operating lease in respect of rented premises | **12,981** | 1,799 |
| Equity-settled share based payment | | |
| – issue of remuneration shares | **–** | 1,200 |
| – issue of share warrants | **–** | 552 |
| | **–** | 1,752 |
| Impairment loss recognised in respect of | | |
| – trade receivables | **–** | 66 |
| – other receivables | **–** | 108 |
| – amount due from an associate | **–** | 12 |
| – amount due from a related company | **–** | 13 |
| Write off of investment deposits | **100** | – |

## 7. TAXATION

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Continuing operations** | | |
| Current taxation | | |
| Hong Kong Profits tax | | |
| – Provision for the year | **4,491** | 92 |
| – Under-provision for prior years | **–** | 27 |
| Deferred tax | | |
| – Credit for the year | **–** | (4) |
| Taxation for the year | **4,491** | 115 |

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profit tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009.

Hong Kong Profits Tax was calculated at 16.5% of the estimated assessable profit for the years ended 31 March 2010 and 2009.

The taxation for the year can be reconciled to the (loss) profit before tax per the consolidated statement of comprehensive income as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| (Loss) profit before taxation from continuing operations: | **(23,664)** | 15,916 |
| Tax at domestic income tax rate of 16.5% | **(3,905)** | 2,626 |
| Tax effect of expenses not deductible for tax purposes | **10,436** | 2,411 |
| Tax effect of income not taxable for tax purpose | **(1,853)** | (5,721) |
| Utilisation of tax losses previously not recognised | **(1,154)** | (15) |
| Tax effect of tax losses not recognised | **967** | 787 |
| Under-provision for prior years | **–** | 27 |
| Taxation for the year | **4,491** | 115 |

## 8. DIVIDEND

The directors of the Company do not recommend the payment of a final dividend for the two years ended 31 March 2010 and 2009.

## 9. TRADE RECEIVABLES

The followings are the balances of trade receivable, net of impairment losses:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables from the business of dealing in securities | | |
| – clearing houses and cash clients | **36,070** | 11,040 |
| – margin clients | **301,809** | 72,744 |
| Trade receivables from the business of dealing in futures | | |
| – clearing houses and cash clients | **13,581** | 7,974 |
| Trade receivables from other businesses | **65** | 160 |
| | **351,525** | 91,918 |
| Less: Impairment loss recognised | **(136)** | (1,598) |
| | **351,389** | 90,320 |

As at 31 March 2010, the Group had trade receivables balance of approximately HK$131,000 (2009: HK$4,436,000) which was denominated in USD.

The settlement terms of trade receivables arising from the business of dealing in securities are two days after trade date and trade receivables arising from the business of dealing in futures are one day after trading date. The trade receivables from electrical engineering contract and trading of electrical goods business allow a credit period of 30 to 90 days. The Group does not hold any collateral over these balances.

No ageing analysis is disclosed for the Group's margin clients as these margin clients were carried on an open account basis, the directors of the Company consider that the ageing analysis does not give additional value in the view of the nature of business of margin financing.

The following is an aged analysis of trade receivables (excluded margin clients), net of impairment losses, at the end of each reporting period:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Less than 30 days | **17,026** | 16,650 |
| 31 to 60 days | **11,146** | 893 |
| 61 to 90 days | **7,060** | 407 |
| Over 90 days | **14,432** | 866 |
| | **49,664** | 18,816 |

Trade receivables to cash and margin clients are secured by the clients' pledged securities at fair values of approximately HK$3,003,584,000 (2009: HK$319,189,000) which can be sold at the Group's direction to settle any margin call requirements imposed by their respective securities transactions. The trade receivables to cash and margin customers are repayable on demand and bear interest at commercial rates. As at 31 March 2010, included in the total trade receivables, approximately HK$337,808,000 (2009: HK$81,377,000) were interest bearing whereas approximately HK$13,581,000 (2009: HK$10,541,000) were non-interest bearing.

In determining the recoverability of the trade receivables, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date.

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately HK$36,851,000 (2009: HK$2,992,000) which were past due as at the reporting date for which the Group has not provided for impairment loss.

At 31 March 2010 and 2009, the ageing analysis of trade receivables that were past due but not impaired are as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Less than 30 days | **4,238** | 826 |
| 31 to 90 days | **18,181** | 1,300 |
| Over 90 days | **14,432** | 866 |
| | **36,851** | 2,992 |

Trade receivables that were past due but not impaired relate to a number of independent customers that either have a good track record for repayment with the Group or fully settled the outstanding balances subsequently. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Movements in the impairment loss of trade receivables in aggregate during the year are as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Balance at beginning of the year | **1,598** | 747 |
| Arising on acquisition of subsidiaries | **–** | 1,308 |
| Amounts written off as uncollectible | **–** | (523) |
| Reclassified as assets held for sale | **(858)** | - |
| Disposal of subsidiaries | **(145)** | - |
| Reversal of impairment loss recognised | **(459)** | - |
| Recognised impairment loss during the year | **–** | 66 |
| Balance at end of the year | **136** | 1,598 |

Included in the impairment losses of trade receivables with an aggregated balance of approximately HK$136,000 (2009: HK$1,598,000) were individually impaired trade debtors who were in financial difficulties. The Group doesn't hold any collateral over these balances.

## 10. INVESTMENT DEPOSITS

| | 2010 | 2009 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Deposit for formation of a joint venture *(Note b)* | **5,000** | 5,000 |
| Earnest money for acquisition an interest in the People's Republic of China ("PRC") company engaged in software development *(Note c)* | **–** | 3,500 |
| Deposit paid for acquisition of an associate in the PRC engaged in brokerage services for dealing in financial and commodity futures *(Note d)* | **66,619** | 37,307 |
| Deposit paid for acquisition of additional interests in a subsidiary engaged in brokerage for dealing in futures business *(Note e)* | **–** | 5,000 |
| Deposit paid for acquisition entire interest of a subsidiary engaged in investment and corporate finance advisory, trading of securities and money lending *(Note f)* | **–** | 100 |
| | **71,619** | 50,907 |
| Less: Impairment losses | **(5,000)** | (8,500) |
| | **66,619** | 42,407 |

*Notes:*

(a) Except for otherwise disclosed, the above deposits are refundable and classified as current assets in the consolidated financial statements.

(b) A deposit of HK$10,000,000 was paid to a PRC party in May 2002 for the formation of a sino-foreign joint venture in the PRC in which the Group would own 49%. The joint venture was to be principally engaged in construction engineering consultancy and advisory services. The joint venture could not obtain the business license and half of the deposit amounting to HK$5,000,000 was refunded to the Group on 18 July 2005. Up to the date of this report, the Group is still taking steps to recover the deposits. As the amount has not yet received up to the report date and based on the assessment of the Company's directors, impairment losses was made in respect of the balance of HK$5,000,000.

(c) On 15 July 2005, the Group entered into a letter of intent with an independent third party and a guarantor in relation to the proposed acquisition of certain equity interests in a PRC company, which is principally engaged in the design and distribution of application software specifically for hospitals and clinics in the PRC. Pursuant to the terms of the letter of intent, the Group paid HK$20,000,000 as earnest money.

Pursuant to the cancellation agreement of the letter of intent date 28 September 2007, the earnest money paid of HK$20,000,000 was agreed to be fully refunded by the end of July 2008. During the year ended 31 March 2010 and 2009, the Group has recovered HK$3,500,000 and HK$8,500,000 respectively. Accordingly, this amount of the provision for impairment was reversed and credited to the consolidated statement of comprehensive income.

(d) On 9 December 2008, Fortune Financial (Holdings) Limited ("Fortune Financial"), a wholly subsidiary of the Company entered into a non-legally binding memorandum with an independent third party, 深圳市華德石油化工有限公司 (Shenzhen Huade Petrochemical Company Limited*) ("Shenzhen Huade") to acquire between 20% to 49% equity interest of 新紀元期貨有限公司 (New Era Futures Co., Ltd*) ("New Era") at consideration of RMB1,500,000 (equivalent to approximately HK$1,690,000) for every 1% equity interest of New Era. The total aggregate consideration would range from RMB30,000,000 to RMB73,500,000 (equivalent to approximately HK$33,810,000 to HK$82,840,000).

New Era is a company established in the PRC and engaged in brokerage services for dealing in financial and commodity futures contracts in the PRC. The Group had paid RMB3,000,000 (equivalent to approximately HK$3,400,000) as deposit on 9 December 2008.

On 4 March 2009, Fortune Financial entered into second non-legally binding memorandum with Shenzhen Huade to increase its targeted acquisition percentage in New Era's equity interest to not less than 40%. Correspondingly, the minimum total aggregated consideration would increase to RMB60,000,000. The Group had paid an additional deposit of RMB30,040,000 (equivalent to approximately HK$33,907,000) on 5 March 2009.

On 22 May 2009, Fortune Financial entered into the share transfer agreement with Shenzhen Huade to acquire 49% equity interest in New Era at a consideration of RMB58,830,000 and the Group had paid a further deposit of RMB5,000,000 (equivalent to approximately HK$5,687,000) on 22 May 2009.

On 2 February 2010, Fortune Financial entered into a supplementary agreement with Shenzhen Huade in which both parties agreed to extend the long stop date to 31 December 2010 and Fortune Financial agreed to pay the remaining consideration of RMB20,790,000 (equivalent to approximately HK$23,625,000) as deposit within five business days after signing the supplementary agreement. The Group had paid the deposit on 2 February 2010.

Upon the completion of the share transfer in New Era, the consideration would be fully set off with the deposit already paid by the Group.

(e) On 6 March 2009, Fortune Financial entered into a sales and purchase agreement with an independent third party, Pioneer (China) Limited ("Pioneer China") a minority shareholder of a subsidiary to acquire remaining 49% issued share capital on Excalibur Futures Limited ("EFL") at a consideration of HK$9,800,000. Details of the transaction had been set out in the Company's circular dated 16 March 2009. As of 31 March 2009, the Group had paid HK$5,000,000 as deposit for the acquisition. The transaction was approved by independent shareholders of the Company at an extraordinary meeting held on 29 May 2009.

(f) On 6 March 2009, Fortune Financial entered into a sales and purchase agreement with an independent third party, Ample Wealth Group Limited to acquire entire interest of Wealth Aim Group Limited which owns 70% equity interests in AMS Capital Limited at a consideration of HK$58,400,000. Details of the transaction had been set out in the Company's circular date 16 March 2009. As at 31 March 2009, the Group had paid HK$100,000 as a non-refundable deposit for the acquisition.

On 2 November 2009, Fortune Financial and Ample Wealth Group Limited agreed to terminate the transaction and the deposit was fully written off in the current year.

* *For identification purpose only*

## 11. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

| | 2010 | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade payables from the business of dealing in securities – margin and cash clients | **93,446** | 28,878 |
| Trade payables from the business of dealing in future contracts | **44,425** | 40,637 |
| Trade payables arising from the business of electrical engineering contract work and trading of electrical goods | **–** | 4,034 |
| Other payables and accruals | **8,230** | 9,590 |
| | **146,101** | 83,139 |

For trade payables, no ageing analysis is disclosed for Group's cash and margin clients as these clients were carried on an open account basis, the ageing analysis does not give additional value in the view of the nature of business of share margin financing.

At the end of the reporting period, the ageing analysis of the trade payables arising from the business of electrical engineering contract work and trade of electrical goods was as follows:

| | 2010 | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 61 – 90 days | **–** | 7 |
| Over 90 days | **–** | 4,027 |
| | **–** | 4,034 |

The average credit period on purchases of electrical goods is 30 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

## 12. COMMITMENTS

At the end of the reporting period, the Group had the following commitments in respect of:

### (a) Capital commitment

| | 2010 | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Contracted but not provided for: | | |
| – acquisition of subsidiaries *(Note i)* | **–** | 82,400 |
| – acquisition of intangible assets *(Note ii)* | **–** | 8,341 |
| | **–** | 90,741 |

*Notes:*

(i) On 6 March 2009, the Group entered into a sale and purchase agreement whereby the Group agreed to purchase the entire interest in Wealthy Aim Group Limited from Ample Wealth Group Limited, an independent third party, at a consideration of HK$58,500,000. The Group paid HK$100,000 deposit as at 31 March 2009 and the balance of the consideration will be settled by the issuance of zero coupon convertible loan notes at conversion price of HK$0.16 each. The acquisition is conditional upon fulfillment of all conditions precedent in the sales and purchase agreement and the transaction has not yet completed up to 31 March 2009. Details of which are set out in the Company's announcement dated on 16 March 2009. The agreement was terminated on 2 November 2009.

On 6 March 2009, the Group entered into two sale and purchase agreements to acquire 49% equity interests in Excalibur Securities Limited (ESL) and EFL from Pioneer China, a minority shareholder of the Group. The consideration of HK$19,200,000 and HK$9,800,000 respectively of which are settled by issuance of zero coupon convertible loan notes at conversion price of HK$0.16 each, subjected to the profit guarantee for ESL for its net profits not less than HK$10,000,000 and HK$12,000,000 in 2009 and 2010 and EFL for its net profits not less than HK$4,500,000 and HK$5,000,000 respectively. The transactions were approved by independent shareholders of the company at an extraordinary general meeting held on 29 May 2009 and details of which are set out in the Company's announcement dated 8 May 2009. As at 31 March 2009, a total refundable deposit of HK$5,000,000 was paid.

(ii) On 18 February 2009, the Group has acquired 51% of the issued share capital of EFL which had previously entered into a project agreement with an independent third party to acquire an advance specific software for futures contracts trading at a consideration of HK$20,000,000. As at 31 March 2009, the Group has prepaid HK$11,659,000 for the project cost.

**(b) Operating lease commitment**

*The Group as lessee*

The Group leases certain of its offices premises under operating lease arrangements. Lease for properties are negotiated for a term ranging from three months to three years and rental are fixed at the inception of lease. No provision for contingent rent and terms of renewal were established in the lease.

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within one year | **5,006** | 8,385 |
| In the second to fifth years, inclusive | **467** | 3,697 |
| | **5,473** | 12,082 |

## 13. CHANGE IN FAIR VALUE OF DERIVATIVE COMPONENT OF CONVERTIBLE LOAN NOTE

The amount represents the change in fair value of a subscription option entitled to the holder of a convertible loan note to subscribe for additional convertible loan note. The fair value of the option was estimated by an independent valuer on the date of issuance and the end of the reporting period using an option pricing model.

## FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 March 2010 (2009: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

## RESULTS

During the year ended 31 March 2010, the total revenue for the Group was approximately HK$80,488,000 (2009: HK$10,676,000) and loss attributed to the shareholders was approximately HK$23,711,000 (2009: profit HK$16,224,000). The loss was mainly due to the change in fair value of derivative component and the imputed interest expenses on convertible loan notes issued by the Group. Factoring these elements into the accounts, the financial performance of the Group in the current year has improved as a result of more vibrant economic conditions and the strength of our business.

During the period under review, the Group has completed the acquisitions of two major subsidiaries, namely Excalibur Securities Limited (ESL) and Excalibur Futures Limited (EFL). Both companies became a wholly owned subsidiary on 11 August 2009.

## REVIEW OF OPERATIONS

### Securities broking business

For the year under review, the Group operates two wholly owned securities companies, Fortune (HK) Securities Limited and Excalibur Securities Limited, the latter became a wholly owned subsidiary on 11 August, 2009. Revenue booked by these two securities broking business recorded approximately HK$37,854,000 (2009: HK$6,294,000), accounting for approximately 47.03% of the Group's total revenue (2009: 58.95%). The result was due to an increase in commission income arising from underwriting and placements. During the year under review, the financial markets over the world have stabilized after a series of policies introduced by governments and central banks. The investment sentiment of the local capital market has improved, as indicative of the active transactions made by our securities clients, resulting in the growth in commission income.

As per the announcement made by the Company on 22 October 2009, the Group is in process of disposing Excalibur Securities Limited. Pending its completion, the Group's strategy is to strengthen and focus on the existing securities operation of Fortune (HK) Securities Limited and work in close collaboration with our Shenzhen representative office to explore cross border business opportunities in securities trading and placement.

**Securities financing business**

During the year under review, interest income generated from securities margin loan portfolio was approximately HK$16,684,000 (2009: HK$1,829,000), which accounted for 20.73% of the Group's total revenue (2009: 17.13%). Growth for the year under review is attributed to the Group's expanded operation, including the acquisition of Excalibur Securities Limited which was completed on 11 August 2009 and the increasing demand from our established customer base.

To leverage this growth opportunity, the Group has injected more resources into the securities financing business and deepened our coverage of the customers' needs for capital.

The Group will continue to exercise caution in the granting of securities financing to clients, closely monitor its credit policy and perform regular reviews and assessment on the gearing level, investment portfolio and credit record of individual borrowers.

**Futures Broking Business**

On 11 August 2009, Excalibur Futures Limited became a wholly owned subsidiary of the Group. The income generated from the futures broking business during the year under review recorded approximately HK$25,536,000 (2009: HK$2,424,000) accounting for approximately 31.73% of the Group's total revenue (2009: 22.71%). With our strategic focus in the growing cross border integration between Hong Kong and the mainland financial markets, the management expects that the futures broking business will continue to be one of the key drivers of the Group's revenue in the coming year.

**Other businesses**

During the year, the Group commenced new business operations in the areas of insurance broking, immigration advisory and financial communication services, which were in line with the corporate strategy of becoming an integrated financial services provider in the Great China region. Aggregate income generated by these subsidiaries amounted to approximately HK$414,000, accounting for less than 1% of the Group's total revenue. The Group is confident that these new businesses will not only strengthen our position in the market and enhance our ability to serve the target customer base, but they will also develop into a healthy stream of income in the long run.

## PROSPECTS

After the financial turmoil in 2008, the driving seat for economic recovery has shifted to the East. Emerging markets in particular Asia are steering the wheels for global recovery. At China Fortune Group Limited, we have long been convinced that the emergence of China as a world power in the global economy will bring immense opportunities to the local financial market. It has been our strategy to strengthen our mainland presence, deepened our network and our participation of the market where possible to seize the opportunities ahead.

The acquisition of 49% equity interest in 新紀元期貨有限公司 (New Era Futures Company Limited*) ("New Era Futures"), a company established in the PRC engaged in brokerage services for dealing in financial and commodity futures contracts in the PRC is in progress. Upon completion, the Group can extend its present scope of business to cover financial and commodity futures dealings in the PRC. In addition, the Directors considered that the acquisition would enable a strategic partnership with other shareholders of New Era Futures, facilitating further collaborations in the futures market on the mainland, a move which is in the interests of the shareholders of the Company (the "Shareholders") and the Group as a whole.

The Company will continue to focus on exploring further opportunities to invest in financial services-related businesses that could maximize the returns to the Shareholders.

## CAPITAL STRUCTURE

As at 31 March 2009, the total issued share capital of the Company was 756,070,000 shares of HK$0.1 each ("Share(s)").

On 27 February 2008, the Company entered into a placing agreement with Kingston Securities Limited in respect of a conditional placing of the zero coupon convertible notes in the aggregate principal amount of HK$50 million due on the third anniversary of the date of issue, that is, 19 February 2012, at a conversion price of HK$0.1 per conversion share ("China Fortune CB1"). During the year ended 31 March 2010, convertible notes with an aggregate principal amount of HK$22,000,000 were converted into 220,000,000 Shares.

On 22 May 2009, the Company entered into a subscription agreement with Jadehero Limited ("Jadehero") in respect of the issuance of the zero coupon convertible bonds in the principal amount of HK$128 million due on 31 December 2012 at an exercise price of HK$0.16 per conversion share ("China Fortune CB2"). During the year ended 31 March 2010, convertible bonds with an aggregate principal amount of HK$67,040,000 were converted into 419,000,000 Shares.

On 25 September 2009 and 22 January 2010, 3,800,000 new Shares and 1,800,000 new Shares were issued pursuant to the share option scheme of the Company adopted on 12 February 2003 and refreshed on 29 May 2009 (the "Share Option Scheme").

As at 31 March 2010, the total issued Shares were 1,400,670,000 Shares.

## LIQUIDITY AND FINANCIAL RESOURCES AND GEARING RATIO

As at 31 March 2010, the Group's total current assets and current liabilities were approximately HK$655,438,000 (2009: HK$232,057,000) and approximately HK$425,588,000 (2009: HK$84,939,000) respectively, while the current ratio was about 1.5 times (2009: about 2.7 times).

As at 31 March 2010, the Group's aggregate bank balance and cash amounted to approximately HK$34,052,000 (2009: HK$22,138,000), representing approximately 5.20% (2009: 9.54%) of total current assets.

* *For identification purpose only*

The gearing ratio as at 31 March 2010, measured on the basis of total borrowing as a percentage of total Shareholders' equity, was approximately 224.41% (2009: 21.98%). The increase was mainly due to other borrowings and convertible loan notes.

As at 31 March 2010, the debt ratio, defined as total debts over total assets, was approximately 50.01% (2009: 9.50%). The increase in the debt ratio was mainly due to other borrowings and convertible loan notes.

## FUND RAISING ACTIVITIES

In 6 May 2009, the Company entered into a subscription agreement with Top Good Holdings Limited ("Top Good") in respect of the issuance of zero coupon convertible bonds of the Company in the principal amount of HK$32 million to Top Good due on the third anniversary of the date of issue, that is 30 June 2012 ("China Fortune CB3"). China Fortune CB3 may be convertible into a maximum number of 200,000,000 new Shares at the conversion price of HK$0.16 per conversion share. Following the approval by the shareholders at the extraordinary general meeting of the Company held on 29 May 2009, the Company had issued China Fortune CB3 in an aggregate principal amount of HK$32 million to Top Good.

On 22 May 2009, the Company entered into a subscription agreement with Jadehero in respect of the issuance of China Fortune CB2 with the option for Jadehero to further subscribe convertible bonds up to a maximum principal amount of HK$128 million convertible into a maximum of 800 million Shares. Following the approval by the Shareholders at the extraordinary general meeting of the Company held on 3 July 2009, the Company had fully issued China Fortune CB2 to Jadehero.

## MATERIAL ACQUISITION AND DISPOSAL

On 6 March 2009, Fortune Financial (Holdings) Limited ("Fortune Financial") as the purchaser, a wholly-owned subsidiary of the Company, entered into a conditional agreement with Pioneer (China) Limited ("Pioneer") as the vendor to acquire the remaining 49% equity interest in Excalibur Securities Limited (the "ESL") at a consideration HK$19,200,000. The consideration had been settled by issuing zero coupon convertible notes of the Company in a principal amount of HK$19,200,000 due on the third anniversary of the date of issue, that is 24 August 2012 with conversion price of HK$0.16 per conversion share. ESL is a corporation licensed to carry on type 1 (dealing in securities) regulated activity under Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"). The acquisition was completed on 11 August 2009 and ESL thereafter became a wholly-owned subsidiary of the Company.

On 6 March 2009, Fortune Financial as the purchaser also entered into a conditional agreement with Pioneer as the vendor to acquire the remaining 49% equity interest in Excalibur Futures Limited ("EFL") at a consideration HK$9,800,000. The consideration had been settled by issuing zero coupon convertible notes of the Company in a principal amount of HK$9,800,000 due on the third anniversary of the date of issue, that is 24 August 2012 with conversion price of HK$0.16 per conversion share. EFL is a corporation licensed to carry on type 2 (dealing in futures contract) regulated activity under SFO. The acquisition was completed on 11 August 2009 and EFL thereafter became a wholly-owned subsidiary of the Company.

On 6 March 2009, Fortune Financial (as purchaser) entered into a conditional sale and purchase agreement with an independent third party, Ample Wealth Group Limited (as vendor), to acquire the entire interest in Wealthy Aim Group Limited ("Wealthy Aim"), which owns 70% equity interests in AMS Capital Limited, at a consideration of HK$58,500,000 ("AMS Agreement"). The AMS Agreement was terminated on 2 November 2009. Details of the termination of the acquisition were set out in the Company's announcement dated 3 November 2009.

On 22 May 2009, Fortune Financial (as purchaser) entered into a conditional share transfer agreement with 深圳市華德石油化工有限公司 (Shenzhen Huade Petrochemical Company Limited*) ("Shenzhen Huade"), a company established in the PRC (as vendor), to acquire 49% equity interest in New Era Futures at a consideration of RMB58,830,000 (equivalent to approximately HK$66,619,000). New Era Futures is a company established in the PRC and engaged in brokerage services for dealing in financial and commodity futures contracts in the PRC. The acquisition was not completed as at the date of this announcement.

On 16 October 2009, a conditional sale and purchase agreement was entered into among Fortune Financial, Faith Star Asia Limited ("Faith Star") and ESL in relation to the disposal of the entire equity interest in ESL by Fortune Financial to Faith Star at the consideration of the net asset value of ESL (based on the management accounts of ESL as at the date of completion of disposal) that equivalent to the sum plus HK$5 million. The transaction constituted a major and connected transaction of the Company. The disposal has not been completed as at the date of this announcement.

On 24 November 2009, the Company as the vendor entered into a conditional agreement with Mr. Lai Sai Sang as the purchaser in relation to the disposal of the entire equity interest in Yew Sang Hong (BVI) Limited, a wholly-owned subsidiary of the Company ("YSH") and the loan owed by the YSH and its subsidiaries ("YSH Group") to the Company in the sum of approximately HK$5,111,000 at a consideration of HK$10,000. The transaction constituted a major and connected transaction of the Company. The disposal was completed on 31 January 2010.

On 27 January 2010, an agreement was entered into among King Dynasty Group Limited ("King Dynasty"), a wholly-owned subsidiary of the Company as the purchaser, VC Financial Group Limited ("VCFG") as the vendor and VC Asset Management Limited as the target company in relation to the acquisition of 2,475,000 shares representing 9.9% of the issued share capital of the target company, at a consideration of HK$600,000. The acquisition was completed in February 2010.

* *For identification purpose only*

On 27 January 2010, an agreement was entered into among King Dynasty as the purchaser, VCFG as the vendor and VC Capital Limited ("VCCL") as the target company in relation to the acquisition of 1,980,000 shares representing 9.9% of the then issued share capital of the target company, at a consideration of HK$1,600,000. The acquisition was completed in February 2010.

## SIGNIFICANT INVESTMENT

On 18 September 2009, a subscription agreement was entered into between Jetgain Limited, a wholly owned subsidiary of the Company (as subscriber) and Value Convergence Holdings Limited ("VC Holdings") (as issuer), a company incorporated in Hong Kong with limited liabilities and the issued shares of which are listed on the main board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), in respect of the subscription of the convertible bonds to be issued by VC Holdings in a principal amount of HK$100,000,000 at an initial conversion price of HK$1.00 per conversion share of VC Holdings. The subscription agreement was lapsed on 1 March 2010.

On 3 March 2010, Main Wealth Enterprises Limited ("Main Wealth") as the subscriber, a wholly-owned subsidiary of the Company, entered into a subscription term sheet with Emperor Watch and Jewellery Limited ("EWJ") as the issuer, a company incorporated in Hong Kong with limited liability and the issued shares of which are listed on the main board of the Stock Exchange, in respect of the subscription for the convertible bonds to be issued by EWJ up to a maximum principal amount of HK$70,000,000 in two tranches with an initial conversion price of HK$0.54 per conversion share of EWJ. Main Wealth had completed the subscription of tranche one convertible bonds in the principal amount of HK$10,000,000 in April 2010 and has been given an option to subscribe for tranche two convertible bonds in the principal amount of HK$60,000,000.

## CONTINGENT LIABILITIES

As at 31 March 2010, the Group does not have any material contingent liability.

## CAPITAL COMMITMENT

As at 31 March 2010, the Group had no outstanding capital commitment (2009: HK$90,741,000).

## CHARGE ON THE GROUP'S ASSET

As at 31 March 2010, the Group had not charged or pledged any of its assets.

## RISK MANAGEMENT

The Group has properly put in place credit management policies which cover the examination of the approval of client's trading and credit limits, regular review of facilities granted, monitoring of credit exposures and the follow up of credit risks associated with overdue debts. The policies are reviewed and updated regularly.

## FOREIGN CURRENCY FLUCTUATION

During the year, the Group mainly use Hong Kong dollars to carry out its business transactions. The Board considers the foreign currency exposure is insignificant.

## HUMAN RESOURCES

At as 31 March 2010, the Group had 105 employees in total. The Group remunerated employees based on the industry practice and individual's performance. Staff benefits include contributions to retirement benefit scheme, medical allowance and other fringe benefits. In addition, the Group maintains a share option scheme for the purpose of providing incentives and rewards to eligible participants based on their contributions.

## LITIGATION

On 17 August 2009, Yew Sang Hong Limited, a then indirectly wholly-owned subsidiary of the Company which was subsequently disposed by the Group in January 2010, received a winding-up petition (the "Winding-Up Petition") issued by the Hong Kong Housing Authority ("HKHA") demanding repayment of the Judgment Debts of approximately HK$1,094,000 together with the accrued and further interests. The case was fully settled by a mutually agreed amount of HK$400,000 and the Winding-Up Petition was withdrawn on 19 October 2009.

One of the Company's subsidiaries has claimed for a rental deposit in the sum of HK$130,000 and has been counterclaimed by the landlord in the sum of approximately HK$940,000 for alterations made, chattels removed and loss of rental. The Company is currently seeking legal advice for further course of action.

Other than those disclosed above, there was no material litigation in respect of outstanding litigation or legal proceedings that needed to be disclosed as at 31 March 2010.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

## CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company has complied with all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange throughout the year ended 31 March 2010.

## AUDIT COMMITTEE

The audit committee, which comprises three independent non-executive Directors of the Company, namely Mr. Ng Kay Kwok, Mr. Lam Ka Wai, Graham and Mr. Tam B Ray Billy, has reviewed with the management and the external auditor of the Company the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including but not limited to, the review of audited consolidated financial statements of the Group for the year ended 31 March 2010.

## PUBLICATION OF THE ANNUAL RESULTS AND ANNUAL REPORT

This result announcement is also published on the websites of the Stock Exchange at www.hkex.com.hk and the Company at www.290.com.hk. The annual report for the year ended 31 March 2010 will be dispatched to the Shareholders and published on the websites of the Stock Exchange and the Company in due course.

By Order of the Board
**China Fortune Group Limited**
**Ng Cheuk Fan, Keith**
*Managing Director*

Hong Kong, 28 July 2010

*As at the date of this announcement, the Board consists of three Executive Directors, namely Mr. Ng Cheuk Fan, Keith (Managing Director), Mr. Yeung Kwok Leung and Mr. Hon Chun Yu; one Non-Executive Director, Mr. Wong Kam Fat, Tony (Chairman), and three Independent Non-Executive Directors, namely Mr. Tam B Ray Billy, Mr. Ng Kay Kwok and Mr. Lam Ka Wai, Graham.*