

CHINA FORTUNE INVESTMENTS

中國幸福投資

Third Quarterly Report 2012



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

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

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

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

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

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

FINANCIAL HIGHLIGHT

- Recorded an unaudited turnover of approximately HK\$219 million for the nine months ended 30 September 2012;
- Recorded an unaudited loss attributable to the equity holders of the Company of approximately HK\$42 million for the nine months ended 30 September 2012;
- The Directors do not recommend the payment of a dividend for the nine months ended 30 September 2012.

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and nine months ended 30 September 2012

	NOTES	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
		2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Continuing Operations					
Turnover	2	107,869	5,064	218,951	113,679
Cost of sales and services		(76,069)	(2,894)	(141,484)	(67,598)
Gross profit		31,800	2,170	77,467	46,081
Other income	2	7,887	572	11,483	3,445
Distribution expenses		(15,177)	(3,295)	(29,582)	(10,909)
Administrative expenses		(18,932)	(10,830)	(82,401)	(34,571)
Realised loss on disposal of financial assets held for trading		-	-	-	(2,783)
Unrealised (loss)/gain on financial assets held for trading		-	(2,325)	(1,196)	(4,595)
(Loss)/profit from operations		5,578	(13,708)	(24,229)	(3,332)
Finance costs		(4,443)	(1,661)	(10,042)	(4,940)
(Loss)/profit before tax		1,135	(15,369)	(34,271)	(8,272)
Income tax expenses	3	(146)	-	(2,807)	-
(Loss)/profit for the period		989	(15,369)	(37,078)	(8,272)
Other comprehensive (expenses)/income:					
Net gain arising on revaluation of available- for-sale investment during the period		-	-	69	-
Exchange differences on translation of financial statements of foreign operations		1,378	(3,349)	(920)	2,430
Other comprehensive (expenses)/income for the period, net of tax		1,378	(3,349)	(851)	2,430
Total comprehensive (expenses)/income for the period		2,367	(18,718)	(37,929)	(5,842)

	NOTES	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
		2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
(Loss)/profit attributable to:					
Shareholders of the Company		2,471	(14,005)	(41,916)	(5,244)
Non-controlling interests		(1,482)	(1,364)	4,838	(3,028)
		<u>989</u>	<u>(15,369)</u>	<u>(37,098)</u>	<u>(8,272)</u>
Total comprehensive (expenses)/income attributable to:					
Shareholders of the Company		3,849	(17,354)	(42,767)	(2,814)
Non-controlling interests		(1,482)	(1,364)	4,838	(3,028)
		<u>2,367</u>	<u>(18,718)</u>	<u>(37,929)</u>	<u>(5,842)</u>
(Loss)/profit per share					
Basic (HK cents per share)	4	<u>0.02</u>	<u>(0.13)</u>	<u>(0.32)</u>	<u>(0.05)</u>
Diluted (HK cents per share)		<u>0.06</u>	<u>(0.13)</u>	<u>(0.32)</u>	<u>(0.05)</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2012 (Unaudited)

	Share capital	Share premium	Merger reserve	General reserve	Share-based compensation reserve	Convertible bonds equity reserve	Investments Revaluation Reserve	Exchange reserve	Accumulated losses	Attributable to owners of the Company	Non-controlling interest	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Note (i))	(Note (i))								
Nine months ended 30 September 2011												
At 1 January 2011	112,725	983,095	(46,815)	11,512	57,173	22,999	-	6,636	(233,192)	914,133	1,233	915,366
Additional non-controlling interest arising on the setting up a subsidiary	-	-	-	-	-	-	-	-	-	-	26,912	26,912
Total comprehensive (expenses)/income attributable to shareholder	-	-	-	-	-	-	-	2,430	(5,244)	(2,814)	(3,028)	(5,842)
At 30 September 2011	112,725	983,095	(46,815)	11,512	57,173	22,999	-	9,066	(238,436)	911,319	25,117	936,436
Nine months ended 30 September 2012												
At 1 January 2012	112,725	983,095	(46,815)	24,338	57,173	22,999	94	24,574	(502,629)	675,554	24,881	700,435
Recognition of equity-settled share-based payment	-	-	-	-	21,360	-	-	-	-	21,360	-	21,360
Lapse of equity-settled share-based payment	-	-	-	-	(31,318)	-	-	-	31,318	-	-	-
Recognition of equity component of convertible bonds	-	-	-	-	-	57,616	-	-	-	57,616	-	57,616
Exercised of convertible bonds	36,481	123,034	-	-	-	(20,291)	-	-	-	139,224	-	139,224
Total comprehensive income attributable to shareholders	-	-	-	-	-	-	69	(920)	(41,916)	(42,767)	4,838	(37,929)
At 30 September 2012	149,206	1,106,129	(46,815)	24,338	47,215	60,324	163	23,654	(513,227)	850,987	29,719	880,706

Notes:

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

NOTES:

1. Basis of preparation and principal accounting policies

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

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

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

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

¹ Effective for annual periods beginning on or after 1 July 2011

² Effective for annual periods beginning on or after 1 January 2012

³ Effective for annual periods beginning on or after 1 July 2012

⁴ Effective for annual periods beginning on or after 1 January 2013

⁵ Effective for annual periods beginning on or after 1 January 2014

⁶ Effective for annual periods beginning on or after 1 January 2015

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

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

2. Turnover and other income

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

	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover				
Diamond business	95,896	–	169,368	–
Provision of HIT Services	11,973	5,064	49,583	113,679
Mining	–	–	–	–
Sales of radio trunking systems integration	–	–	–	–
	107,869	5,064	218,951	113,679
Other revenues				
Trading income	7,140	–	7,140	–
Gain on disposal of fixed assets	–	–	3,400	–
Interest income	–	388	63	489
Others	747	184	880	2,956
	7,887	572	11,483	3,445
Total revenues	115,756	5,636	230,434	117,124

3. Income tax expenses

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

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Hong Kong profits tax	(i)	-	-	-	-
Overseas taxation	(ii)	146	-	2,807	-
		146	-	2,807	-

Notes:

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

4. Loss per share

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

	For the nine months ended 30 September	
	2012 HK\$'000	2011 HK\$'000
Loss for the period		
Loss for the period attributable to shareholders of the Company	(41,916)	(5,244)
Effect of dilutive potential ordinary share: Interest on convertible bonds (net of tax)	-	2,950
Loss for the purpose of diluted earnings per share	(41,916)	(2,294)

As at 30 September
2012

2011

Number of shares

Weighted average number of ordinary shares

for the purpose of basic loss per share

12,949,681,406

10,986,984,230

Effect of dilutive potential ordinary share:

Convertible bonds and share options*

–

5,054,940,932

Weighted average number of ordinary shares

for the purpose of diluted loss per share

12,949,681,406

16,041,925,162

* Effect of conversion of convertibles bonds would result on anti-dilute effect in the 2012 is the same. Effect of dilutive potential ordinary shares in respect of outstanding share options are anti-dilutive for both periods.

5. Dividend

The Board does not recommend the payment of a dividend for the nine months ended 30 September 2012 (2011: Nil).

6. Comparative figures

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

BUSINESS REVIEW AND OUTLOOK

Diamonds and gemstone retail business in China

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

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

I. Purchases

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

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

II. Sales

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

1. Sales of loose diamonds

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

2. Sales of polished diamonds

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

III. Development planning

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

Healthcare Information Technology (“HIT”) in the PRC

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

l) Medical Imaging Database System

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

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

The medical imaging database is enriching continuously to provide support for the smooth operation of the network platform. Through the in-depth co-operation with the nationwide medical administration departments, scientific research institutions and nearly 100 authoritative medical institutions in flexible and diversified forms, medical imaging data in various areas of Mainland China was continuously added into the database that adopts the ACR international standards.

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

II) *Electronic Medical Records (EMR) system*

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

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

III) *Regional Public Health Medical System*

The Group will use its proprietary software and technology to work with government healthcare management institutions in Mainland China to establish health archives information system for urban and rural area residents according to the requirements and standards of Ministry of Health in China ("MOHC").

Mining Business

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

Group Development

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

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

FINANCIAL REVIEW

Revenue

For the nine months period ended 30 September 2012, the unaudited consolidated turnover of the Group was approximately HK\$218.95 million and HK\$113.68 million in the corresponding period in 2011.

The turnover approximately HK\$49.58 million and HK\$169.37 million from the business of healthcare information technology ("HIT") and diamond retail business respectively. For HIT, the decrease was mainly due to significant market competition in PRC.

Other revenue

The Group obtained approximately HK\$11.48 million other revenue which was mainly represented by gain from disposal of fixed assets of approximately HK\$3.40 million and trading income of approximately HK\$7.14 million.

Distribution expenses

Distribution costs increase from HK\$10.91 million to HK\$29.58 million mainly represented marketing and rental expenses for the development of diamond business, the increase in amount mainly due to more effort on the marketing to capture a higher market share in diamond retail business.

Administrative expenses

Administrative expenses increase from HK\$34.57 million to HK\$82.40 million it mainly due to the share based payment of approximately HK\$21.36 million from 800 million new share options and increase in consulting and professional fee incurred in acquisition of diamond business.

Finance cost

Finance cost for the period of approximately HK\$8.69 million was convertible bonds imputed interest. During the period, the convertible bonds of HK\$208 million were issued as consideration for acquisition of diamond retail business during the period with imputed compound interest rate of 5.7% per annum. Also, the Group has proceeded the placing of convertible bonds amounting to HK\$100 million to use up to HK\$80 million for financing the acquisition and the remaining for the Group's general working capital.

Loss for the period

As a result, the Group recorded the loss attributable to shareholders of the Company approximately HK\$41.92 million for the nine months in the year 2012, and in the same period of last year we recorded a loss of HK\$5.24 million.

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

As at 30 September 2012, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

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

Name of the Shareholders	Type of interest	Number of shares	Number of underlying shares	Approximate percentage of issued share capital
Mr. Stephen William Frostick (<i>Note 1</i>)	Beneficial	-	10,000,000	0.07%
Mr. Cheng Chun Tak (<i>Note 2</i>)	Beneficial	-	35,000,000	0.23%

Note:

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

Long positions in the underlying shares

On 31 March 2010, share options of 10,000,000 shares and 35,000,000 shares at exercise price of HK\$0.186 were granted to two directors of the Company, Mr. Stephen William Frostick and Mr. Cheng Chun Tak (who previously was consultant and appointed as executive director on 6 January 2012), under the Share Option Scheme. These share options are exercisable for a period of 3 years from the date of granted unconditionally.

Save as disclosed above, as at 30 September 2012, none of the Directors or the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

As at 30 September 2012, so far as is known to the Directors of the Company, the following persons (other than the director and the chief executive of the Company) had an interests or a short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

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

Name of the Shareholders	Type of interest	Number of shares	Number of underlying shares (Note 4)	Total		Approximate percentage of issued share capital
				Number of shares and underlying shares	Number of shares and underlying shares	
Value Vibrant Investments Limited ("Value Vibrant") (Note 1)	Beneficial	-	2,768,303,521	2,768,303,521		18.55%
Ms. Ye Hong (Note 2)	Beneficial	-	1,203,155,101	1,203,155,101		8.06%
Twin Wins Capital Limited ("Twin Wins") (Note 3)	Beneficial	-	848,979,591	848,979,591		5.69%

Notes:

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

Save as disclosed above, as at 30 September 2012, the Directors were not aware of any other person (other than the Directors or the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTION SCHEME

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

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

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

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

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

Name or category of participant	As at 1 January 2012	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	As at 30 June 2012	Date of granted of share options	Exercise period of share options	Exercise price of share options
Directors									
Stephen William Frostick	10,000,000	-	-	-	-	10,000,000	31 March 2010	31 March 2010 – 30 March 2013	HK\$0.186
Cheng Chun Tak	35,000,000	-	-	-	-	35,000,000	31 March 2010	31 March 2010 – 30 March 2013	HK\$0.186
	<u>45,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,000,000</u>			
Employees	29,220,000	-	-	29,220,000	-	-	10 August 2007	10 August 2007 – 9 August 2012	HK\$0.380
Employees	52,000,000	-	-	-	12,000,000	40,000,000	31 March 2010	31 March 2010 – 30 March 2013	HK\$0.186
Employees	-	800,000,000	-	-	-	800,000,000	26 January 2012	26 January 2012 – 25 January 2015	HK\$0.061
	<u>81,220,000</u>	<u>800,000,000</u>	<u>-</u>	<u>29,220,000</u>	<u>-</u>	<u>840,000,000</u>			
Consultants	58,439,900	-	-	58,439,900	-	-	10 August 2007	10 August 2007 – 9 August 2012	HK\$0.380
Consultants	103,000,000	-	-	-	-	103,000,000	31 March 2010	31 March 2010 – 30 March 2013	HK\$0.186
Consultants	50,000,000	-	-	-	-	50,000,000	3 May 2010	3 May 2010 – 2 May 2013	HK\$0.186
Consultants	20,000,000	-	-	-	-	20,000,000	9 July 2010	9 July 2010 – 8 July 2013	HK\$0.186
	<u>231,439,900</u>	<u>-</u>	<u>-</u>	<u>58,439,900</u>	<u>-</u>	<u>173,000,000</u>			
	<u>357,659,900</u>	<u>800,000,000</u>	<u>-</u>	<u>87,659,900</u>	<u>12,000,000</u>	<u>1,058,000,000</u>			

The total number of Shares available for issue under the Scheme as at the date thereof was 1,058,000,000 representing approximately 7.09% of the issued share capital of the Company.

COMPETING INTERESTS

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

CORPORATE GOVERNANCE CODE

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

AUDIT COMMITTEE

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

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

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

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

On behalf of the Board

CHINA FORTUNE INVESTMENTS (HOLDING) LIMITED

Cheng Chun Tak and Wan Zihong

Co-Chairmen

Hong Kong, 14 November 2012

As at the date hereof, the board comprises five executive Directors being Mr. Cheng Chun Tak (co-chairman), Mr. Wan Zihong (co-chairman), Mr. Chang Chun, Mr. Zhang Jie and Mr. Stephen William Frostick, one non-executive Director namely Mr. Huang Shenglan, and three independent non-executive Directors being Mr. Chang Jun, Mr. Tso Hon Sai, Bosco and Mr. Lee Chi Hwa, Joshua.