

# CHINA FORTUNE INVESTMENTS

## 中國幸福投資

Third Quarterly Report 2013



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 the Group from continuing operations approximately HK\$232.80 million for the nine months ended 30 September 2013 and HK\$196.80 million (re-presented) in 2012. Gross profit for the continuing operations in 2013 is approximated HK\$104.48 million;
- Recorded an unaudited profit attributable to the equity holders of the Company amounted to approximately HK\$28.54 million for the nine months ended 30 September 2013;
- The Directors do not recommend the payment of a dividend for the nine months ended 30 September 2013.

The board of directors (the "Board") of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the three months and nine months ended 30 September 2013, together with the unaudited comparative figures for the corresponding period in last year, are as follows:

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and nine months ended 30 September 2013

	NOTES	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
		2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
<b>Continuing Operations</b>					
Turnover	2	53,094	123,324	232,803	196,796
Cost of sales and services		(31,223)	(90,334)	(128,326)	(143,789)
Gross profit		21,871	32,990	104,477	53,007
Other income and gains, net	2	93	211	133	368
Distribution expenses		(15,344)	(13,116)	(46,553)	(22,159)
Administrative expenses		(1,749)	(5,918)	(17,843)	(42,007)
Unrealised loss on financial assets held for trading		–	–	–	(1,196)
Finance costs		(2,103)	(4,443)	(222)	(10,042)
Profit/(loss) before income tax expenses from continuing operations		2,798	9,724	39,992	(22,029)
Income tax expenses	3	(1,576)	(146)	(11,923)	(2,807)
Profit/(loss) for the period from continuing operations		1,222	9,578	28,069	(24,836)
<b>Discontinued operations</b> (Loss)/profit for the period from discontinued operations		2,041	(8,589)	(2,821)	(12,242)
<b>Profit/(loss) for the period</b>		3,263	989	25,248	(37,078)
<b>Other comprehensive (expenses)/income:</b>					
Net gain arising on revaluation of available- for-sale investment during the period		–	–	–	69
Exchange differences on translation of financial statements of foreign operations		(636)	1,378	(823)	(920)
Other comprehensive (expenses)/income for the period, net of tax		(636)	1,378	(823)	(851)
<b>Total comprehensive income/(expenses) for the period</b>		2,627	2,367	24,425	(37,929)

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	(Re-presented)		(Re-presented)	
	2013	2012	2013	2012
NOTES	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Profit/(loss) attributable to:</b>				
Shareholders of the Company	4,033	2,471	28,536	(41,916)
Non-controlling interests	(770)	(1,482)	(3,288)	4,838
	<u>3,263</u>	<u>989</u>	<u>25,248</u>	<u>(37,078)</u>
<b>Total comprehensive (expenses)/income attributable to:</b>				
Shareholders of the Company	3,458	3,849	27,794	(42,767)
Non-controlling interests	(831)	(1,482)	(3,369)	4,838
	<u>2,627</u>	<u>2,367</u>	<u>24,425</u>	<u>(37,929)</u>
<b>Earnings/(losses) per share attributable to Shareholder of the Company</b>				
	4			
From continuing and discontinued operations				
Basic ( <i>HK cents per share</i> )	<u>0.20</u>	<u>0.19</u>	<u>1.45</u>	<u>(3.24)</u>
Diluted ( <i>HK cents per share</i> )	<u>0.25</u>	<u>0.64</u>	<u>1.34</u>	<u>(3.24)</u>
From continuing operations				
Basic ( <i>HK cents per share</i> )	<u>0.06</u>	<u>0.74</u>	<u>1.43</u>	<u>(1.92)</u>
Dilutes ( <i>HK cents per share</i> )	<u>0.12</u>	<u>0.98</u>	<u>1.32</u>	<u>(1.92)</u>

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2013 (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
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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)
<b>At 30 September 2012</b>	<b>149,206</b>	<b>1,106,129</b>	<b>(46,815)</b>	<b>24,338</b>	<b>47,215</b>	<b>60,324</b>	<b>163</b>	<b>23,654</b>	<b>(513,227)</b>	<b>850,987</b>	<b>29,719</b>	<b>880,706</b>
Nine months ended 30 September 2013												
At 1 January 2013	154,646	1,119,870	(46,815)	20,585	47,215	54,563	-	25,572	(1,215,930)	159,706	(1,644)	158,062
Issue of shares	66,754	169,002	-	-	-	(35,668)	-	-	-	199,688	-	199,688
Transfer to accumulated losses	-	-	-	-	(26,865)	-	-	-	25,855	-	-	-
Exchange difference on translation of foreign operation	-	-	-	-	-	-	-	(742)	-	(742)	(81)	(823)
Total comprehensive income attributable to shareholders	-	-	-	-	-	-	-	-	28,536	28,536	(3,288)	25,248
<b>At 30 September 2013</b>	<b>221,400</b>	<b>1,288,872</b>	<b>(46,815)</b>	<b>20,585</b>	<b>21,360</b>	<b>18,695</b>	<b>-</b>	<b>24,830</b>	<b>(1,161,359)</b>	<b>387,388</b>	<b>(5,013)</b>	<b>382,375</b>

NOTES:

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

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

The accounting policies and method of computation used in preparing the unaudited consolidated results are consistent with those used in the audited financial statements for the year ended 31 December 2012. The condensed consolidated results have not been audited by the Company's auditors, but have been reviewed by the Company's audit committee.

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

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

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

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

<sup>2</sup> *Effective for annual periods beginning on or after 1 January 2013*

<sup>3</sup> *Effective for annual periods beginning on or after 1 January 2014*

<sup>4</sup> *Effective for annual periods beginning on or after 1 January 2015*

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

**2. Revenue, other income and gains, net**

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

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

	<b>(Unaudited)</b> <b>Three months</b> <b>ended 30 September</b>		<b>(Unaudited)</b> <b>Nine months</b> <b>ended 30 September</b>	
	<b>2013</b>	2012	<b>2013</b>	2012
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
<b>Revenue</b>				
Sales of goods	<b>53,904</b>	123,324	<b>232,803</b>	196,796
<b>Other revenues</b>				
Interest income	–	–	<b>6</b>	25
Others	<b>93</b>	211	<b>127</b>	343
	<b>93</b>	211	<b>133</b>	368



### 3. Income tax expenses

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

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Hong Kong profits tax	(i)	–	–	2,516	–
Overseas taxation	(ii)	1,576	146	9,407	2,807
		<b>1,576</b>	146	<b>11,923</b>	2,807

Notes:

- (i) Hong Kong profit tax has been provided at the rate of 16.5% on estimated assessable profit arising in Hong Kong for the relevant periods.
- (ii) Overseas taxation represents tax charges on the assessable profits of certain subsidiaries operating in the PRC calculated at the applicable rates.

### 4. Profit/(loss) per share

#### From continuing and discontinued operations

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

	(Unaudited)	
	For the nine months ended 30 September	
	2013 HK\$'000	2012 HK\$'000
<b>Profit/(loss) for the period</b>		
Profit/(loss) for the period attributable to owners of the Company	28,536	(41,916)
Effect of dilutive potential ordinary share:		
Interest on convertible bonds (net of tax)	1,477	–
Profit/(loss) for the purpose of diluted earnings per share	<b>30,013</b>	(41,916)

4. **Profit/(loss) per share (continued)**  
*From continuing and discontinued operations (continued)*

	(Unaudited) As at 30 September	
	2013	(Re-stated) 2012
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic profit/(loss) per share	<b>1,968,846,739</b>	1,294,968,141
Effect of dilutive potential ordinary share:		
Convertible bonds	<b>272,764,489</b>	769,253,883
Weighted average number of ordinary shares for the purpose of diluted profit/(loss) per share	<b>2,241,611,228</b>	2,064,222,024

*From continuing operations*

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

	(Unaudited) For the nine months ended 30 September	
	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Profit/(loss) for the purpose of basic profit/(loss) per share from continuing operations	<b>28,069</b>	(24,836)
Effect of dilutive potential ordinary share:		
Interest on convertible bonds (net of tax)	<b>1,477</b>	-
Profit/(loss) for the purpose of diluted profit/(loss) per share from continuing operations	<b>29,546</b>	(24,836)

5. **Dividend**

The Board does not recommend the payment of a dividend for the nine months ended 30 September 2013 (2012: Nil).

6. **Comparative figures**

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

## **BUSINESS REVIEW AND OUTLOOK**

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

The Group engages in the retail business of diamonds, jades as well as other gemstones and related jewellery through Beijing City-In-Love Market Limited (北京全城熱戀商場有限公司) (being a principal operating company of Million Zone in Beijing, China). The Directors believe that there will be raising consumer demand for quality goods and increasing consumption desire for luxury goods in Mainland China and the prospects of diamonds will remain positive in the next few years.

City-In-Love positions itself as a distributor by asset-light operation in the diamonds and gemstone industry. City-In-Love acquires diamond merchandise through low margin deposits and credit period with the ultimate sales of all diamonds at its proprietary hypermarkets, thereby able to achieve an ultra-low inventory level. City-In-Love has demonstrated its advantages as a distributor in such aspects in purchasing, products update and settlement with suppliers, including extensive merchandise sources, low purchase price, relatively low liquidity requirements and relatively high gross margin. With its more effective business development strategies and outstanding market performance, City-In-Love has attracted more attention as one of emerging sales model of jewellery products and has emerged itself the role of representing the affordable and professional diamond hypermarkets.

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

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

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

## **II. Sales**

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

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

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

## **III. Establishment of new stores**

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

## **IV. Development planning**

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

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

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

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

Through the sale of products and provision of services, the Group was one of the major providers of the HIT system that is in line with the requirements of the China hospital systems.

On 28 March 2013, the Group entered into the conditional sale and purchase agreement (“Agreement”) with Da Fu Holdings Limited (“Purchaser”) in relation to the proposed disposal by the Company of its subsidiaries engaging in HIT business contemplated under the Agreement (“Proposed Disposal”). On 12 August 2013, the Shareholders of the Company have approved the Agreement relates to the Disposal in Extraordinary General Meeting.

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

### **Group and other business**

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

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

## **FINANCIAL REVIEW**

### **Revenue**

For the nine months period ended 30 September 2013, the consolidated turnover of the Group from continuing operations was approximately HK\$232.80 million and HK\$169.37 million (re-presented) in 2012. Gross profit for the continuing operations in 2013 is approximately HK\$104.48 million. The revenue is generated from the retail and wholesales of diamonds, jade and other gemstones in Mainland China and Hong Kong.

### **Other revenue**

The Group obtained approximately HK\$133,000 other revenue including bank interest income of HK\$6,000.

### **Selling and distribution expenses**

Selling and distribution costs increases over 110.09% to HK\$46.55 million in 2013, mainly represented advertisement expenses and rental expenses for the diamond and jewellery business, the increase in amount mainly due to new stores opened and more effort on marketing to capture a higher market share.

### **Administrative expenses**

Administrative expenses decrease approximately 57.52% to HK\$17.84 million in 2013 it mainly due to the absence of share based payment of HK\$21.36 million in 2012.

### **Finance cost**

Finance cost decreased approximately 97.79% to HK\$0.22 million in 2013, it primarily due to conversion of convertible bonds and decrease in imputed interest expenses in 2013. Finance cost for the period of approximately HK\$0.22 million were convertible bonds imputed interest and interest in bank loan. During the period, the convertible bonds of HK\$213 million were converted to the shares. Thus, HK\$1.5 million imputed interest income recorded during the period. Also, the interest expenses in bank loan of HK\$1.72 million recorded during the period.

### **Result for the period**

The unaudited profit attributable to Shareholders of the Company approximately HK\$28.54 million for the nine months in the year 2013, and in the same period of last year we recorded a loss of HK\$41.92 million.

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

As at 30 September 2013, 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\$0.1 each of the Company

Name of the Shareholders	Type of interest	Number of shares	Number of underlying shares	Approximate percentage of issued share capital
Mr. Zhang Jie ( <i>Note 1</i> )	Beneficial	56,714,285	-	2.56%

*Note:*

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

### Long positions in the underlying shares

Save as disclosed above, as at 30 September 2013, none of the Directors or the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

## SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

As at 30 September 2013, 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 interest or a short position 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\$0.1 each of the Company

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

#### Notes:

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

Save as disclosed above, as at 30 September 2013, the Directors were not aware of any other person (other than the Directors or the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.



## **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 highest of: (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet on the date of grant; (ii) the average closing price of the 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 2013, the employees and consultants were granted share options to subscribe for shares of the Company, taking into consideration in share consolidation with effect from 26 March 2013, details of which were as follows:

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

The total number of Shares available for issue under the Scheme as at the date thereof was 80,000,000 Shares representing approximately 3.61% of the issued share capital of the Company.

## COMPETING INTERESTS

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

The Company's corporate governance practices are based on the principles and the code provisions as set out in the Corporate Governance Code (the "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 2013.

## **AUDIT COMMITTEE**

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

The audit committee comprises three Independent Non-executive Directors of the Company, namely Mr. Lee Chi Hwa, Joshua (Chairman), Mr. Tso Hon Sai, Bosco and Mr. Chang Jun. The Group's unaudited results for the nine months ended 30 September 2013 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with applicable accounting standards and requirements and that adequate disclosures have been made.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the nine months ended 30 September 2013.

On behalf of the Board  
**CHINA FORTUNE INVESTMENTS (HOLDING) LIMITED**  
**Cheng Chun Tak and Wan Zihong**  
*Co-Chairmen*

Hong Kong, 14 November 2013

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