

CHINA FORTUNE INVESTMENTS

中國幸福投資

Third Quarterly Report 2014



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

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

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

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

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

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

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

FINANCIAL HIGHLIGHT

- Recorded an unaudited turnover of the Group from continuing operations approximately HK\$117.73 million for the nine months ended 30 September 2014 and HK\$232.80 million for the nine months ended 30 September 2013. Gross profit for the continuing operations is approximately HK\$55.03 million in 2014 and approximately HK\$104.48 million in 2013;
- Recorded an unaudited loss attributable to the equity holders of the Company amounted to approximately HK\$4.02 million for the nine months ended 30 September 2014;
- The Directors do not recommend the payment of a dividend for the nine months ended 30 September 2014.

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 2014, 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 2014

| | NOTES | Unaudited Three months ended 30 September | | Unaudited Nine months ended 30 September | |
|--|-------|---|------------------|--|------------------|
| | | 2014 HK\$'000 | 2013 HK\$'000 | 2014 HK\$'000 | 2013 HK\$'000 |
| Continuing Operations | | | | | |
| Revenue | 2 | 36,040 | 53,094 | 117,725 | 232,803 |
| Cost of sales and services | | (22,130) | (31,223) | (62,696) | (128,326) |
| Gross profit | | 13,910 | 21,871 | 55,029 | 104,477 |
| Other income and gains, net | 2 | 70 | 93 | 172 | 133 |
| Selling and distribution expenses | | (11,660) | (15,344) | (33,918) | (46,553) |
| Administrative expenses | | (3,323) | (1,719) | (16,408) | (17,843) |
| Fair value gain on derivatives financial instrument transaction not qualifying as hedges | | – | – | 9,932 | – |
| Finance costs | | (4,953) | (2,103) | (14,235) | (222) |
| Profit/(loss) before income tax expenses from continuing operations | | (5,956) | 2,798 | 572 | 39,992 |
| Income tax expenses | 3 | (519) | (1,576) | (4,589) | (11,923) |
| (Loss)/profit for the period from continuing operations | | (6,475) | 1,222 | (4,017) | 28,069 |
| Discontinued operations | | | | | |
| (Loss)/profit for the period from discontinued operations | | – | 2,041 | – | (2,821) |
| (Loss)/profit for the period | | (6,475) | 3,263 | (4,017) | 25,248 |
| Other comprehensive expenses: | | | | | |
| Exchange differences on translation of financial statements of foreign operations | | (253) | (636) | (144) | (823) |
| Other comprehensive expenses for the period, net of tax | | (253) | (636) | (144) | (823) |
| Total comprehensive (expense)/income for the period | | (6,728) | 2,627 | (4,161) | 24,425 |

| NOTES | Unaudited Three months ended 30 September | | Unaudited Nine months ended 30 September | |
|---|---|--------------|--|---------------|
| | 2014 | 2013 | 2014 | 2013 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| (Loss)/profit attributable to: | | | | |
| Shareholders of the Company | (6,475) | 4,033 | (4,017) | 28,536 |
| Non-controlling interests | - | (770) | - | (3,288) |
| | (6,475) | 3,263 | (4,017) | 25,248 |
| Total comprehensive (expenses)/income attributable to: | | | | |
| Shareholders of the Company | (6,728) | 3,458 | (4,161) | 27,794 |
| Non-controlling interests | - | (831) | - | (3,369) |
| | (6,728) | 2,627 | (4,161) | 24,425 |
| (Loss)/earnings per share attributable to Shareholder of the Company | | | | |
| From continuing and discontinued operations | | | | |
| Basic (HK cents per share) | (1.11) | 0.20 | (0.69) | 1.45 |
| Diluted (HK cents per share) | (1.11) | 0.25 | 0.20 | 1.34 |
| From continuing operations | | | | |
| Basic (HK cents per share) | (1.11) | 0.06 | (0.69) | 1.43 |
| Dilutes (HK cents per share) | (1.11) | 0.12 | 0.20 | 1.32 |

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2014 (Unaudited)

| | Share capital | Share premium | Merger reserve | General reserve | Share-based compensation reserve | Convertible bonds equity reserve | Exchange reserve | Accumulated losses | Attributable to owners of the Company | Non-controlling interest | Total |
|---|----------------|------------------|-----------------|-----------------|----------------------------------|----------------------------------|------------------|--------------------|---------------------------------------|--------------------------|----------------|
| | <i>HKS'000</i> | <i>HKS'000</i> | <i>HKS'000</i> | <i>HKS'000</i> | <i>HKS'000</i> | <i>HKS'000</i> | <i>HKS'000</i> | <i>HKS'000</i> | <i>HKS'000</i> | <i>HKS'000</i> | <i>HKS'000</i> |
| 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 | - | - | - | (35,868) | - | - | 199,888 | - | 199,888 |
| Transfer to accumulated losses | - | - | - | - | (25,855) | - | - | 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 |
| At 30 September 2013 | 221,400 | 1,288,872 | (46,815) | 20,585 | 21,360 | 18,695 | 24,830 | (1,161,539) | 387,388 | (5,013) | 382,375 |
| Nine months ended | | | | | | | | | | | |
| 30 September 2014 | | | | | | | | | | | |
| At 1 January 2014 | 221,432 | 1,311,243 | (46,815) | 2,817 | - | 16,443 | 2,012 | (1,333,751) | 173,381 | - | 173,381 |
| Issue of shares | 17,772 | 220,478 | - | - | - | (14,368) | - | - | 223,662 | - | 223,662 |
| Capital reduction | (236,088) | - | - | - | - | - | - | 236,088 | - | - | - |
| Exchange difference on translation of foreign operation | - | - | - | - | - | - | (144) | - | (144) | - | (144) |
| Issue of convertible bonds | - | - | - | - | - | 12,554 | - | - | 12,554 | - | 12,554 |
| Total comprehensive income attributable to shareholders | - | - | - | - | - | - | - | (4,017) | (4,017) | - | (4,017) |
| At 30 September 2014 | 3,116 | 1,531,721 | (46,815) | 2,817 | - | 14,609 | 1,868 | (1,101,680) | 405,636 | - | 405,636 |

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 2013. 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 9 | <i>Financial Instruments</i> ⁴ |
| HKFRS 9, HKFRS 7 and HKAS 39 Amendments | <i>Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39</i> ⁴ |
| HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments | Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – <i>Investment Entities</i> ¹ |
| HKFRS 14 | <i>Regulatory Deferral Accounts</i> ³ |
| HKAS 19 Amendments | Amendments to HKAS 19 <i>Employee Benefits – Defined Benefit Plans: Employee Contributions</i> ² |
| HKAS 32 Amendments | Amendments to HKAS 32 <i>Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities</i> ¹ |
| HKAS 39 Amendments | Amendments to HKAS 39 <i>Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting</i> ¹ |
| HK(IFRIC)-Int 21 <i>Annual Improvements 2010-2012 Cycle</i> | <i>Levies</i> ¹ Amendments to a number of HKFRSs issued in January 2014 ² |
| <i>Annual Improvements 2011-2013 Cycle</i> | Amendments to a number of HKFRSs issued in January 2014 ² |

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

² *Effective for annual periods beginning on or after 1 July 2014*

³ *Effective for annual periods beginning on or after 1 January 2016*

⁴ *No mandatory effective date yet determined but is available for adoption*

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

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:

| | (Unaudited) Three months ended 30 September | | (Unaudited) Nine months ended 30 September | |
|-----------------------|--|--------------------------------|---|--------------------------------|
| | 2014 HK\$'000 | 2013 HK\$'000 | 2014 HK\$'000 | 2013 HK\$'000 |
| Revenue | | | | |
| Sales of goods | 36,040 | 53,904 | 117,525 | 232,803 |
| Other revenues | | | | |
| Bank interest income | 6 | – | 30 | 6 |
| Others | 64 | 93 | 142 | 127 |
| | 70 | 93 | 172 | 133 |

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 | |
|-----------------------|-------|------------------------------------|------------------|-----------------------------------|------------------|
| | | 2014 HK\$'000 | 2013 HK\$'000 | 2014 HK\$'000 | 2013 HK\$'000 |
| Hong Kong profits tax | (i) | – | – | – | 2,516 |
| Overseas taxation | (ii) | 519 | 1,576 | 4,589 | 9,407 |
| | | 519 | 1,576 | 4,589 | 11,923 |

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. (Loss)/profit per share

From continuing and discontinued operations

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

| | (Unaudited) For the nine months ended 30 September | |
|--|--|------------------|
| | 2014 HK\$'000 | 2013 HK\$'000 |
| (Loss)/profit for the period | | |
| (Loss)/profit for the period attributable to owners of the Company | (4,017) | 28,536 |
| Effect of dilutive potential ordinary share: | | |
| Interest on convertible bonds (net of tax) | 5,346 | 1,477 |
| Profit for the purpose of diluted profit per share | 1,329 | 30,013 |

4. **(Loss)/profit per share (continued)**
From continuing and discontinued operations (continued)

| | (Unaudited) | |
|--|---------------------------|---------------|
| | As at 30 September | |
| | 2014 | 2013 |
| Number of shares | | |
| Weighted average number of ordinary shares for the purpose of basic (loss)/profit per share | 580,840,077 | 1,968,846,739 |
| Effect of dilutive potential ordinary share: | | |
| Convertible bonds | 80,897,959 | 272,764,489 |
| Weighted average number of ordinary shares for the purpose of diluted profit per share | 661,738,036 | 2,241,611,228 |

From continuing operations

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

| | (Unaudited) | |
|--|----------------------------|-----------------|
| | For the nine months | |
| | ended 30 September | |
| | 2014 | 2013 |
| | HK\$'000 | HK\$'000 |
| (Loss)/profit for the purpose of basic (loss)/profit per share from continuing operations | (4,017) | 28,069 |
| Effect of dilutive potential ordinary share: | | |
| Interest on convertible bonds (net of tax) | 5,346 | 1,477 |
| Profit for the purpose of diluted profit per share from continuing operations | 1,329 | 29,546 |

5. **Dividend**

The Board does not recommend the payment of a dividend for the nine months ended 30 September 2014 (2013: Nil).

6. **Comparative figures**

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

7. **Events after the reporting period**

On 27 October 2014, the Company proposes to raise approximately HK\$124.6 million (before expenses) by way of an open offer of not less than 1,246,404,352 offer shares at a subscription price of HK\$0.1 per offer share on the basis of two offer shares for every one. The Company and the underwriter entered into the underwriting agreement pursuant to which the open offer is fully underwritten by the underwriter.

BUSINESS REVIEW AND OUTLOOK

Diamonds and gemstone business in China

The Group will take a cautious approach according to global economic uncertainties and its effects on the jewellery industry. The Directors believe that there will be raising consumer demand for luxury goods in Mainland China and the prospects of diamonds will remain positive in the long run. However, the sluggish global economic recovery and slowing economic growth in Mainland China may pose a potential threat to the industry in the near future.

In 2013, especially in the second half of the year 2013, the air pollution became more serious in Beijing. The air pollution not only dissuade the people from going shopping but it also affected the whole shopping experience. Thus, the sales results of our stores were also inevitably influenced by air pollution. Also, the Chengdu store opened in April 2013. However, a low shopping sentiment brought by the severe 6.6 magnitude earthquake in Sichuan in April 2013 and severe flood in Chengdu in July 2013 led to lower store sales.

Chinese economy was slowed down in 2013, the credit tightening and the anti-corruption drive ordered by the new administration in Beijing. Those factors have caused overall slackening in consumption and the luxury sector was particularly adversely affected.

As the uncertainty of luxury market, the potential jewellery investors also reduced their demands in diamonds and gemstone products. Thus, revenue from the high-end customers was reduced in 2013.

In 2014, the Group upheld a more conservative strategy for the diamonds and gemstone business due to the aforesaid reasons. In anticipation of a deteriorating economy in 2014, the Group cut over 50 staffs in PRC to save the operation cost. Due to sustainable economic uncertainty, the revenue and profit of the Group decreased comparing to the Corresponding Period in 2013. Except for the retail and wholesale of diamonds and gemstone, the directors will consider the franchise projects in PRC. They consider the Group will enhance our branding in different locations of PRC through franchise.

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 sales of all diamonds in diamond hypermarket, thereby able to achieve a relatively 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, 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 more comprehensive and has established stable co-operation with several suppliers. With the further development of its business, City-In-Love positions itself with more bargaining power to further its revolutionary purchase model of “Deposit-Leverage-Consignment” in the diamonds industry to purchase quality diamond merchandise through relatively 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. Jewellery retail stores

In January 2014, the Group closed down one store in Beijing due to slowdown in luxury consumption. City-In-Love further integrated its Beijing markets with currently three stores. Except Beijing, we also have stores in Chengdu and Shenyang.

IV. Development planning

A management decision was made to slacken the pace of the opening of shops resulted from the weak consumer sentiment in retail business.

Besides the 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.

Group and other business

The Group had no other significant acquisition or disposal of investments for the nine months ended 30 September 2014.

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

Impairment assessment for the year ended 31 December 2013

Comparing to cashflow forecast for year ended 31 December 2012 (“2012 forecast”), the cashflow projection reduced in cashflow forecast for year ended 31 December 2013 (“2013 forecast”) due to the adverse changes in the luxury market. The main changes were (a) a slower expansion of stores, (b) a lower sales per store and (c) a higher discount rate. For the expansion plan, the expected number of new stores in 2013 forecast reduced approximately 12.5% comparing to 2012 forecast. For the forecast sales per store, it dropped approximately 50% in 2013 forecast comparing to 2012 forecast. The pre-tax discount rate has been increase from 17% in 2012 to 19% in 2013.

FINANCIAL REVIEW

Revenue

For the nine months period ended 30 September 2014, the revenue of the Group from continuing operations were decreased to HK\$117.73 million from HK\$232.80 million in the corresponding period in 2013. The decrease in revenue was mainly due to sluggish economic environment in PRC. Gross profit from the continuing operations in 2014 is approximately HK\$55.03 million. The entire revenue is generated from the retail and wholesales of diamonds, jade and other gemstones.

Other revenues

For the nine months ended 30 September 2014, the Group obtained approximately HK\$172,000 in other revenues from continuing operations including bank interest income of HK\$30,000.

Selling and distribution expenses

Selling and distribution expenses from continuing operations decreased to approximately HK\$33.92 million for the nine months ended 30 September 2014 from HK\$46.55 million in the corresponding period in 2013, mainly due to decrease in employee remuneration and rental expenses for the diamond and jewellery business in 2014.

Administrative expenses

Administrative expenses from continuing operations slightly decreased from approximately HK\$17.84 million for the nine months ended 30 September 2013 to approximately HK\$16.41 million in the corresponding period in 2014, primarily due to the decrease in depreciation and professional fee in 2014.

Finance costs

Finance costs from continuing operations was HK\$14.24 million for the nine months ended 30 September 2014. The finance costs were mainly consisted of convertible bonds imputed interest and interest in bank borrowings. The increase of finance costs mainly attributable to increase in the interest on convertible bonds in 2014.

Results of the period

The unaudited loss attributed to shareholders was approximately HK\$4.02 million for the nine months ended 30 September 2014 and unaudited profit attributed to shareholders was approximately HK\$25.25 million in the corresponding period in 2013. The loss of group was mainly attributed to reduction of revenue due to slowing economic growth in Mainland China.

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

As at 30 September 2014, 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\$0.005 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 | 21,342,857 | – | 3.42% |
| Mr. Xue Huixuan (<i>Note 2</i>) | Beneficial | – | 22,285,714 | 3.58% |

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.
2. Mr. Xue Huixuan, an Executive Director of the Company has interest in the Company.

Long positions in the underlying shares

Save as disclosed above, as at 30 September 2014, 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 2014, so far as is known to the Directors of the Company, the following persons (other than a Director and the Chief Executive of the Company) had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in the ordinary shares of HK\$0.005 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 | 34,081,633 | 33,061,224 | 67,142,857 | 10.77% |
| Twin Wins Capital Limited <i>(Note 2)</i> | Beneficial | - | 32,448,979 | 32,448,979 | 5.2% |

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.
2. Twin Wins is wholly owned by Liu Qiang who is deemed to be interested in the shares.

Save as disclosed above, as at 30 September 2014, the Directors were not aware of any other person (other than the Directors or the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

SHARE OPTION SCHEME

The Company adopted a new share option scheme (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.

As at 30 September 2014, no share options were outstanding.

COMPETING INTERESTS

The directors of the Company are not aware of, as at 30 September 2014, 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 2014.

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 2014 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 2014.

On behalf of the Board

CHINA FORTUNE INVESTMENTS (HOLDING) LIMITED

Cheng Chun Tak and Wan Zihong

Co-Chairmen

Hong Kong, 14 November 2014

As at the date of this report, the Board comprises seven executive Directors, namely Mr. Cheng Chun Tak (co-chairman), Mr. Wan Zihong (co-chairman), Mr. Chang Chun, Mr. Zhang Jie, Mr. Xue Huixuan, 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.