

2014

FIRST QUARTERLY REPORT

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**Hong Kong Jewellery
Holding Limited**

(Incorporated in Bermuda with limited liability)
Stock Code: 8048

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

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This report, for which the directors (the “Directors”) of Hong Kong Jewellery 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 Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, there are no other matters the omission of which would make any statement herein or this report misleading.

FIRST QUARTERLY RESULTS ENDED 31 MARCH 2014

The Directors of the Company present herewith the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months ended 31 March 2014, together with the comparative figures for the corresponding period in 2013, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE THREE MONTHS ENDED 31 MARCH 2014

	Notes	For the three months ended 31 March	
		2014 HK\$'000	2013 HK\$'000
Revenue	2	61,786	52,432
Other income		1,145	223
Change in inventories		84,876	73,477
Purchase of goods		(106,295)	(84,894)
Professional fee		(4,762)	(3,985)
Employee benefits expense		(37,691)	(33,545)
Depreciation and amortization		(1,496)	(1,348)
Other expenses		(8,770)	(6,663)
Finance costs	3	(94)	(71)
Loss before income tax		(11,301)	(4,374)
Income tax expense	4	(27)	(2)
Loss for the period		(11,328)	(4,376)
Other comprehensive income for the period, net of tax			
Exchange gain on translation of financial statements of foreign operations		719	—
Total comprehensive loss for the period		(10,609)	(4,376)

		For the three months ended 31 March	
	Notes	2014 HK\$'000	2013 HK\$'000
Loss for the period attributable to:			
Owners of the Company		(9,752)	(3,085)
Non-controlling interests		(1,576)	(1,291)
		<u>(11,328)</u>	<u>(4,376)</u>
Total comprehensive loss attributable to:			
Owners of the Company		(9,080)	(3,085)
Non-controlling interests		(1,529)	(1,291)
		<u>(10,609)</u>	<u>(4,376)</u>
Loss per share for the loss attributable to the owners of the Company during the period			
– Basic and diluted (in HK cents)	5	<u>(0.82) cents</u>	<u>(0.30) cents</u>

NOTES:

1. Basis of Preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules"). In this year, the accounting policies adopted by the Group are consistent with financial statements for the year ended 31 December 2013.

The financial statements have been prepared on the historical cost basis, except for financial instruments classified as available-for-sale financial assets and financial assets at fair value through profit or loss which are stated at fair values.

2. Revenue and Turnover

Revenue from external customers from the Group's principal activities recognised during the period is as follows:

	For the three months ended 31 March	
	2014	2013
	HK\$'000	HK\$'000
Sales of gold and jewellery products	14,785	8,758
Enterprise software products	28,071	29,489
Systems integration	8,541	4,139
Professional services	9,459	9,149
ASP services	930	897
Total revenue	61,786	52,432

3. Finance Costs

For the three months ended 31 March		
	2014	2013
	HK\$'000	HK\$'000
Interest charges on:		
Other interest expense	94	71
	94	71

4. Income Tax Expense

No provision for Hong Kong profits tax has been made in the financial statements as the Group's entities either incurred tax losses for the respective periods or their estimated assessable profits for the respective periods were wholly absorbed by unrelieved tax losses brought forward from previous years.

Taxation on overseas profits has been calculated on the estimated assessable profits for the respective periods at the rates prevailing in the countries in which the Group operates.

For the three months ended 31 March		
	2014	2013
	HK\$'000	HK\$'000
Current tax		
– Overseas		
Tax for the period	27	2
Total income tax expense	27	2

5. Loss per Share

The calculation of the basic and diluted loss per share for the three months ended 31 March 2014 is based on the loss attributable to owners of the Company of HK\$9,752,000 (2013: HK\$3,085,000) and the weighted average number of ordinary shares of 1,188,460,000 (2013: 1,015,050,000) in issue during the period.

Diluted loss per share for the three months ended 31 March 2014 and 2013 equates the basic loss per share as there is no potential dilutive ordinary share in existence during the period.

RESERVES

Movements in reserves for the periods ended 31 March 2014 and 2013 were as follows:–

	Share premium HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2013	179,556	6,013	(145,411)	40,158
Loss for the period	–	–	(3,085)	(3,085)
At 31 March 2013	<u>179,556</u>	<u>6,013</u>	<u>(148,496)</u>	<u>37,073</u>
At 1 January 2014	220,438	7,675	(159,502)	68,611
Loss for the period	–	–	(9,752)	(9,752)
Other comprehensive income				
Exchange gain on translation of financial statement of foreign operations	<u>–</u>	<u>672</u>	<u>–</u>	<u>672</u>
Total comprehensive loss for the period	<u>–</u>	<u>672</u>	<u>(9,752)</u>	<u>(9,080)</u>
At 31 March 2014	<u>220,438</u>	<u>8,347</u>	<u>(169,254)</u>	<u>59,531</u>

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2014 (2013: Nil).

BUSINESS REVIEW

The Group's loss attributable to owners of the Company for the three months ended 31 March 2014 was HK\$9,752,000, comparing with a loss of HK\$3,085,000 in the same period of 2013.

During the period ended 31 March 2014, the Group recorded a turnover of HK\$61,786,000, representing an increase of 18% compared with a turnover of HK\$52,432,000 in the same period of last year.

The sales of gold and jewellery products contributed turnover of HK\$14,785,000 (2013: HK\$8,758,000) during the period ended 31 March 2014. On the IT business side, sales of enterprise software products slightly decreased by 5% to HK\$28,071,000 (2013: HK\$29,489,000). Systems integration business and professional services business increased by 106% and 3% to HK\$8,541,000 (2013: HK\$4,139,000) and HK\$9,459,000 (2013: HK\$9,149,000) respectively. ASP business remained stable with revenue of HK\$930,000 (2013: HK\$897,000).

FUTURE PROSPECTS

As of 31 March 2014, the number of franchised stores under the brand of **H** H.K. JEWELRY, the scale of market presence and the brand recognition across the country grew significantly as compared with the corresponding period of 2013 and maintained a growing momentum.

FUTURE PROSPECTS *(continued)*

Along with the continuous growth of the Mainland China economy, the passion on jewellery will continue to grow. Capturing the favourable opportunity, the Group will optimise its business structure and strengthen corporate management while reinforcing its marketing efforts, aiming to secure market share with heightened product quality. In the second quarter of 2014, the Group will continue to establish more new franchised stores under the brand of **H** H.K. JEWELRY and extend our retail network to uncovered regions. The Group believes that, led by the wise decisions made by the senior management and supported with the cooperation of the operation team of the Company, our jewellery business in Mainland China will achieve robust and smooth development.

On the IT side of the business, more alarmingly, the obvious slowdown of new software projects taken up by our banking customers. Banks in China and around the region are uncertain about the economy in the coming period and are therefore more cautious in controlling their spending. The Management will look into diversifying our customer portfolio through partnerships and joint marketing efforts with other solution and product suppliers.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

At 31 March 2014, the interests and short positions of the directors and the chief executives of the Company and their associates in the shares, underlying shares or debentures of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Rule 5.46 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), were as follows:

Long positions in the ordinary shares of HK\$0.10 each of the Company

Name of director	Number of ordinary shares held			Total	Percentage of the issued share capital of the Company
	Beneficial owner	Held by family	Held by controlled corporation		
Li Xia	–	–	312,606,140 (Note 1)	312,606,140	26.30%
Lin Di	–	–	148,910,166 (Note 2)	148,910,166	12.53%
Chen Yin	–	–	110,303,827 (Note 3)	110,303,827	9.28%

Notes:

- (1) These shares were held by Sino Eminent Limited, a company incorporated in the British Virgin Islands which is wholly-owned by Ms. Li Xia through Ocean Expert Investments Limited, a company incorporated in the British Virgin Islands.
- (2) These shares were held by Confluence Holdings Limited, a company incorporated in the British Virgin Islands which is wholly-owned by Mr. Lin Di.
- (3) These shares were held by Flourish Zone Limited, a company incorporated in the British Virgin Islands which is wholly-owned by Mr. Chen Yin.

Save as disclosed above, none of the Directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 March 2014.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2014, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Long positions in the ordinary shares of HK\$0.10 each of the Company

Name of shareholder	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Sino Eminent Limited (<i>Note 1</i>)	312,606,140	26.30%
Ocean Expert Investments Limited (<i>Note 1</i>)	312,606,140	26.30%
Li Xia (<i>Note 1</i>)	312,606,140	26.30%
Confluence Holdings Limited (<i>Note 1</i>)	148,910,166	12.53%
Lin Di (<i>Note 1</i>)	148,910,166	12.53%
Cheung Kong (Holdings) Limited (<i>Note 2</i>)	143,233,151	12.05%
Li Ka-Shing Unity Trustee Company Limited (<i>Note 2</i>) (as trustee of The Li Ka-Shing Unity Trust)	143,233,151	12.05%
Li Ka-Shing Unity Trustcorp Limited (<i>Note 2</i>) (as trustee of another discretionary trust)	143,233,151	12.05%
Li Ka-Shing Unity Trustee Corporation Limited (<i>Note 2</i>) (as trustee of The Li Ka-Shing Unity Discretionary Trust)	143,233,151	12.05%
Li Ka-shing (<i>Note 2</i>)	143,233,151	12.05%
Flourish Zone Limited (<i>Note 1</i>)	110,303,827	9.28%
Chen Yin (<i>Note 1</i>)	110,303,827	9.28%
Alps Mountain Agent Limited (<i>Note 2</i>)	71,969,151	6.06%
iBusiness Corporation Limited (<i>Note 2</i>)	67,264,000	5.66%

Notes:

- (1) These shares have been disclosed as Directors' interests held by controlled corporation in the paragraph headed "Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company".
- (2) Mr. Li Ka-shing is the settlor of each of The Li Ka-Shing Unity Discretionary Trust ("DT1") and another discretionary trust ("DT2"). Each of Li Ka-Shing Unity Trustee Corporation Limited ("TDT1", which is the trustee of DT1) and Li Ka-Shing Unity Trustcorp Limited ("TDT2", which is the trustee of DT2) holds units in The Li Ka-Shing Unity Trust ("UT1") but is not entitled to any interest or share in any particular property comprising the trust assets of the said unit trust. The discretionary beneficiaries of each of DT1 and DT2 are, inter alia, Mr. Li Tzar Kuoi, Victor, his wife and children and Mr. Li Tzar Kai, Richard. Li Ka-Shing Unity Trustee Company Limited ("TUT1") as trustee of UT1 together with certain companies which TUT1 as trustee of UT1 is entitled to exercise or control the exercise of one-third or more of the voting power at their general meetings hold more than one-third of the issued share capital of Cheung Kong (Holdings) Limited ("CKH"). CKH is entitled to exercise or control the exercise of one-third or more of the voting power at the general meetings of Alps Mountain Agent Limited ("Alps") and iBusiness Corporation Limited ("iBusiness").

The entire issued share capital of each of TUT1, TDT1 and TDT2 are owned by Li Ka-Shing Unity Holdings Limited ("Unity Holdco"). Mr. Li Ka-shing and Mr. Li Tzar Kuoi, Victor are respectively interested in one-third and two-third of the entire issued share capital of Unity Holdco. TUT1 is only interested in the shares of CKH by reason only of its obligation and power to hold interests in those shares in its ordinary course of business as trustee and, when performing its functions as trustee, exercises its power to hold interests in the shares of CKH independently without any reference to Unity Holdco or any of Mr. Li Ka-shing and Mr. Li Tzar Kuoi, Victor as a holder of the shares of Unity Holdco as aforesaid.

By virtue of the SFO, each of Mr. Li Ka-shing, being the settlor and may being regarded as a founder of each of DT1 and DT2 for the purpose of the SFO, TUT1, TDT1, TDT2 and CKH is deemed to be interested in the 143,233,151 shares of the Company of which 71,969,151 shares are held by Alps and 67,264,000 shares are held by iBusiness.

Save as disclosed above, the Company has not been notified of any other interests or short positions in the issued share capital of the Company at 31 March 2014.

AUDIT COMMITTEE

The Company established an audit committee on 11 August 2000 with written terms of reference in accordance with Rules 5.28 to 5.29 of the GEM Listing Rules. The audit committee is currently comprised three members – Mr. Lam Tin Faat, Ms. Lu Haina and Mr. Fu Ping Man, all of whom are Independent Non-executive Directors. Mr. Lam Tin Faat is the chairman of the audit committee. The audit committee's principal duties are to review and supervise the financial reporting process and internal control procedures of the Group.

The unaudited consolidated results of the Group for the three months ended 31 March 2014 have been reviewed by the audit committee, who is of the opinion that such statements comply with the applicable accounting standards and that adequate disclosures have been made.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors, the management shareholders or their respective associates (as defined in the GEM Listing Rules) had an interest in a business which causes or may cause significant competition with the business of the Group.

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

During the three months period under review, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

By order of the Board
Hong Kong Jewellery Holding Limited
Li Xia
Chairman

Hong Kong, 9 May 2014

The Board comprises of:

Li Xia (*Executive Director*)
Lin Di (*Executive Director*)
Chen Yin (*Executive Director*)
Yip Tin Hung (*Executive Director*)
Lam Tin Faat (*Independent Non-executive Director*)
Lu Haina (*Independent Non-executive Director*)
Fu Ping Man (*Independent Non-executive Director*)