

**CHINA FORTUNE INVESTMENTS**

**中國幸福投資**

Half-Year 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.**

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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\$81.69 million for the six months ended 30 June 2014 and HK\$179.71 million for the six months ended 30 June 2013. Gross profit for the continuing operations in 2014 is approximately HK\$41.12 million and HK\$82.61 million in 2013;
- Recorded an unaudited profit attributable to the equity holders of the Company amounted to approximately HK\$2.46 million, for the six months ended 30 June 2014;
- The Board do not recommend the payment of an interim dividend for the six months ended 30 June 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 six months ended 30 June 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 six months ended 30 June 2014

	NOTES	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
<b>Continuing Operations</b>					
Revenue	2	28,529	78,127	81,685	179,709
Cost of sales		(15,726)	(44,329)	(40,566)	(97,103)
Gross profit		12,803	33,798	41,119	82,606
Other income and gains, net	2	66	–	102	40
Selling and distribution expenses		(10,344)	(13,741)	(22,258)	(31,209)
Administrative expenses		(3,504)	(8,356)	(13,085)	(16,124)
Fair value gain on derivatives financial instrument transaction not qualifying as hedges		–	–	9,932	–
Finance costs		(4,720)	2,558	(9,282)	1,881
Profit/(loss) before income tax expense from continuing operations	4	(5,699)	14,259	6,528	37,194
Income tax expenses	5	(861)	(3,696)	(4,070)	(10,347)
Profit/(loss) for the period from continuing operations		(6,560)	10,563	2,458	26,847
<b>Discontinued operations</b>					
Loss for the period from discontinued operations		–	(1,561)	–	(4,862)
<b>Profit/(loss) for the period</b>		<b>(6,560)</b>	<b>9,002</b>	<b>2,458</b>	<b>21,985</b>
<b>Other comprehensive income/(expenses):</b>					
Exchange differences on translation of financial statements of foreign operations		1	67	109	(187)
Other comprehensive income/(expenses) for the period, net of tax		1	67	109	(187)
<b>Total comprehensive income/(expenses) for the period</b>		<b>(6,559)</b>	<b>9,069</b>	<b>2,567</b>	<b>21,798</b>

	NOTES	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
<b>Profit/(loss) attributable to:</b>					
Shareholders of the Company		(6,560)	10,116	2,458	24,503
Non-controlling interests		–	(1,114)	–	(2,518)
		<u>(6,560)</u>	<u>9,002</u>	<u>2,458</u>	<u>21,985</u>
<b>Total comprehensive income/(expenses) attributable to:</b>					
Shareholders of the Company		(6,559)	10,192	2,567	24,336
Non-controlling interests		–	(1,123)	–	(2,538)
		<u>(6,559)</u>	<u>9,069</u>	<u>2,567</u>	<u>21,798</u>
<b>Earnings/(loss) per share attributable to Shareholder of the Company</b>	6				
From continuing and discontinuing operations					
Basic (HK cents per share)		<u>(1.17)</u>	<u>0.55</u>	<u>0.44</u>	<u>1.33</u>
Diluted (HK cents per share)		<u>(1.17)</u>	<u>0.55</u>	<u>1.20</u>	<u>1.23</u>
From continuing operations					
Basic (HK cents per share)		<u>(1.17)</u>	<u>0.57</u>	<u>0.44</u>	<u>1.46</u>
Diluted (HK cents per share)		<u>(1.17)</u>	<u>0.57</u>	<u>1.20</u>	<u>1.34</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

		Unaudited As at 30 June 2014 HK\$'000	Audited As at 31 December 2013 HK\$'000
	<i>NOTES</i>		
<b>Non-current assets</b>			
Property, plant and equipment	7	29,557	34,144
Goodwill		372,399	372,399
Deferred tax asset		691	691
Deposit and prepayments		6,409	5,153
		<b>409,056</b>	<b>412,387</b>
<b>Current assets</b>			
Inventories		234,372	186,012
Trade receivables	8	17,935	789
Other receivables, deposits and prepayments		153,594	139,760
Promissory note receivable		80,000	80,000
Pledged deposit		11,926	7,692
Cash and bank balances		1,677	808
		<b>499,504</b>	<b>415,061</b>
<b>Current liabilities</b>			
Trade payables	9	19,561	22,245
Accruals, other payables and deposits received		190,349	167,394
Contingent consideration payable		–	246,308
Convertible bonds	11	–	71,565
Interest-bearing bank borrowings		83,907	49,025
Advances from a former shareholder of a subsidiary		27,375	25,933
Due to directors		7,148	10,693
Tax payable		11,299	14,888
		<b>339,639</b>	<b>608,051</b>
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<b>159,865</b>	<b>(192,990)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>568,921</b>	<b>219,397</b>

		<b>Unaudited</b>	Audited
		<b>As at</b>	As at
		<b>30 June</b>	31 December
		<b>2014</b>	2013
	<i>NOTES</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
<b>Non-current liabilities</b>			
Interest-bearing bank borrowings		799	1,089
Convertible bonds	11	<u>155,758</u>	<u>44,927</u>
Total non-current liabilities		<u>156,557</u>	<u>46,016</u>
<b>NET ASSETS</b>			
		<u>412,364</u>	<u>173,381</u>
<b>EQUITY</b>			
<b>Capital and reserves</b>			
Issued capital	10	3,116	221,432
Reserves		<u>409,248</u>	<u>(48,051)</u>
<b>Equity attributable to shareholders of the Company</b>			
		<b>412,364</b>	173,381
Non-controlling interests		<u>—</u>	<u>—</u>
<b>TOTAL EQUITY</b>			
		<u>412,364</u>	<u>173,381</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2014

	Unaudited	
	Six months	
	ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
<b>Net cash inflow/(outflow) from operating activities</b>	<b>173,792</b>	(32,729)
<b>Net cash (outflow)/inflow from investing activities</b>	<b>(1,391)</b>	2,785
<b>Net cash (outflow)/inflow from financing activities</b>	<b>(167,464)</b>	21,347
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>4,937</b>	(8,597)
<b>Effect of foreign exchange rate changes</b>	<b>166</b>	518
<b>Cash and cash equivalents at the beginning of the period</b>	<b>8,500</b>	16,596
<b>Cash and cash equivalents at the end of the period</b>	<b>13,603</b>	8,517
<b>Analysis of balances of cash and cash equivalents:</b>		
Cash and bank balances	1,677	8,517
Pledged bank deposits	11,926	–
<b>Cash and cash equivalents at the end of the period</b>	<b>13,603</b>	8,517



# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014 (unaudited)

	Share Capital	Share Premium	Merger Reserve	General Reserve	Share-based Compensation Reserve	Convertible Bonds Equity Reserve	Exchange Currency Translations Reserves	Accumulated Losses	Attributable to Shareholders 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
Six months ended 30 June 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	-	-	-	-	(23,987)	-	-	23,987	-	-	-
Exchange difference on translation of foreign operation	-	-	-	-	-	-	(167)	-	(167)	(20)	(187)
Total comprehensive income attributable to shareholders	-	-	-	-	-	-	-	24,503	24,503	(2,518)	21,985
At 30 June 2013	221,400	1,288,872	(46,815)	20,585	23,228	18,695	25,405	(1,167,440)	383,930	(4,182)	379,748
Six months ended 30 June 2014											
At 1 January 2014	221,432	1,311,243	(46,815)	2,817	-	16,443	2,012	(1,333,751)	173,361	-	173,361
Issue of shares	17,772	220,478	-	-	-	(14,368)	-	-	223,862	-	223,862
Capital reduction	(236,088)	-	-	-	-	-	-	236,088	-	-	-
Exchange difference on translation of foreign operations	-	-	-	-	-	-	109	-	109	-	109
Issue of convertible bonds	-	-	-	-	-	12,554	-	-	12,554	-	12,554
Total comprehensive income attributable to shareholders	-	-	-	-	-	-	-	2,458	2,458	-	2,458
At 30 June 2014	3,116	1,531,721	(46,815)	2,817	-	14,609	2,121	(1,095,205)	412,364	-	412,364

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

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

<sup>2</sup> *Effective for annual periods beginning on or after 1 July 2014*

<sup>3</sup> *Effective for annual periods beginning on or after 1 January 2016*

<sup>4</sup> *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 returns, 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) Three months ended 30 June</b>		<b>(Unaudited) Six months ended 30 June</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Revenue</b>				
Sales of goods	<b>28,529</b>	78,127	<b>81,685</b>	179,709
<b>Other income and gains, net</b>				
Bank interest income	<b>17</b>	–	<b>24</b>	6
Others	<b>49</b>	–	<b>78</b>	34
	<b>66</b>	–	<b>102</b>	40

3. **Operating segment information**

For management purposes, the Group's continuing operations is organised into business units based on their products and services and has only one reportable segment, which is the diamond and jewellery business. The corporate office in Hong Kong does not earn revenue and is not classified as an operating segment.

Management monitors the results of the Group's operating segments separately for the purposes of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax from continuing operations. The adjusted profit/(loss) before tax from continuing operations is measured consistently with the Group's profit/(loss) before tax from continuing operations except that investment and other income, fair value gain/(loss) on financial assets at fair value through profit or loss and derivative financial instrument, impairment loss on available-for-sale investments, equity-settled share option expense, head office and corporate expenses, finance costs as well as provision for inventories are excluded from such measurement.

### 3. Operating segment information (continued)

For the six month ended 30 June 2014 (Unaudited):

	(Unaudited) For the six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
<b>Segment revenue</b>		
Sales to external customers	<b>81,685</b>	179,709
<b>Segment results</b>	<b>7,990</b>	34,297
<i>Reconciliation:</i>		
Other income	<b>97</b>	40
Fair value gain on derivatives financial instrument transaction not qualifying as hedges	<b>9,932</b>	–
Corporate and other unallocated expenses	<b>(10,258)</b>	(15,059)
Finance costs	<b>(5,303)</b>	2,707
Profit for the period from continuing operations	<b>2,458</b>	21,985

#### **Geographical information**

(a) *Revenue from external customers*

All the revenue are from external customers and it mainly generated from Mainland China. The revenue information of continuing operations above is based on the locations of the customers.

(b) *Non-current assets*

	(Unaudited) As at ended 30 June 2014 HK\$'000	(Audited) As at 31 December 2013 HK\$'000
Mainland China	<b>407,069</b>	405,036
Hong Kong	<b>1,987</b>	1,507
	<b>409,056</b>	406,543

#### 4. Profit/(loss) before income tax expenses

	Three months ended 30 June		Six months ended 30 June	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Continuing operations</b>				
Profit/(loss) before tax has been arrived after charging:				
Cost of sales	15,726	44,329	40,566	97,103
Depreciation of property, plant and equipment	1,399	1,952	4,231	3,084
Operating lease rental in respect of rented premises	4,112	4,117	9,601	9,348
Staff costs, including directors' emoluments: – Basic salaries and other benefits	4,004	8,736	8,270	16,149

#### 5. Income tax expenses

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

	Notes	Three months ended 30 June		Six months ended 30 June	
		2014	2013	2014	2013
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong profits tax	(i)	–	1,472	–	2,516
Overseas taxation	(ii)	861	2,224	4,070	7,831
		<b>861</b>	<b>3,696</b>	<b>4,070</b>	<b>10,347</b>

- (i) Hong Kong profits tax has been provided at the rate of 16.5% on estimated assessable profits 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.

6. Profit per share

*From continuing and discontinued operations*

The calculation of the basic and diluted profit per share are based on:

	<b>(Unaudited)</b>	
	<b>For the six months ended 30 June</b>	
	<b>2014</b>	<b>2013</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Profit for the period</b>		
Profit for the period attributable to owners of the Company	<b>2,458</b>	24,503
Effect of dilutive potential ordinary share:		
Interest on convertible bonds (net of tax)	<b>5,253</b>	1,477
Profit for the purpose of diluted profit per share	<b>7,711</b>	25,980
	<b>(Unaudited)</b>	
	<b>As at 30 June</b>	
	<b>2014</b>	<b>2013</b>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic profit per share	<b>559,307,961</b>	1,844,237,691
Effect of dilutive potential ordinary share:		
Convertible bonds	<b>80,897,959</b>	272,764,489
Weighted average number of ordinary shares for the purpose of diluted profit per share	<b>640,205,920</b>	2,117,002,180

6. Profit per share (continued)

*From continuing operations*

The calculation of the basic and diluted profit per share are based on:

	<b>(Unaudited)</b>	
	<b>For the six months</b>	
	<b>ended 30 June</b>	
	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
Profit for the purpose of basic profit per share from continuing operations	<b>2,458</b>	26,847
Effect of dilutive potential ordinary share: Interest on convertible bonds (net of tax)	<b>5,253</b>	1,477
Profit for the purpose of diluted profit per share from continuing operations	<b>7,711</b>	28,324

7. Property, plant and equipment

	<b>Unaudited</b>	Audited
	<b>30 June</b>	31 December
	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
Net book value as at 1 January	<b>34,144</b>	26,042
Additions	<b>1,454</b>	19,164
Depreciation	<b>(4,231)</b>	(10,120)
Impairment	<b>–</b>	(1,184)
Elimination upon disposal	<b>(1,753)</b>	(222)
Exchange rate adjustment	<b>(57)</b>	464
Net book value, end of the period/year	<b>29,557</b>	34,144

## 8. Trade receivables

An aged analysis of the Group's trade receivables as at the end of the reporting period, based on the invoice date and net of impairment allowance, is as follows:

	0 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	Over 180 days	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 30 June 2014	17,795	140	–	–	–	17,935
As at 31 December 2013	789	–	–	–	–	789

## 9. Trade payables

An aged analysis of the Group's trade payables as at the end of the reporting period, based on invoice date, is as follows:

	0 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	Over 180 days	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 30 June 2014	1,912	478	–	17,171	–	19,561
As at 31 December 2013	4,201	2,531	4,939	6,202	4,372	22,245

## 10. Share capital

	The Company			
	30 June 2014		31 December 2013	
	Number of share of HK\$0.005 each	Nominal Value HK\$'000	Number of share of HK\$0.1 each	Nominal Value HK\$'000
Authorised:				
Ordinary shares	100,000,000,000	500,000	5,000,000,000	500,000
Issued and fully paid:				
At 1 January	2,214,317,006	221,432	15,464,621,272	154,646
Capital reduction	–	(236,088)	–	–
Consolidation of shares	(2,492,808,706)	–	(17,896,963,678)	–
Issue of new shares	397,000,000	397	225,449,977	22,545
Exercise of convertible bonds	504,693,876	17,375	4,421,209,435	44,241
At 30 June	623,202,176	3,116	2,214,317,006	221,432



## 11. Convertible bonds

In 2009, the Group issued convertible bonds with a principal amount of HK\$465 million (the “CB I”) due in 2014 with conversion price of HK\$0.4 per share to acquire 100% equity interests in Super Surplus Trading Limited. It has been fully converted into ordinary shares on January 2014.

In April 2012, the Group issued convertible bonds with a principal amount of HK\$100 million (“CB II”) due in 2017 with conversion price of HK\$2.45 per share.

The CB II do not bear any interest. The effective interest rate of liability is 4.91%. The maturity date is on the fifth anniversary of the date of issue of the CB II.

In March 2014, the Group issued convertible bonds with principal amount of HK\$312 million (the “CB III”) due in 2019 with conversion price of HK\$2.45 per share as final consideration to acquire 100% equity interest in Million Zone Holdings Limited.

The CB III do not bear any interest. The effective interest rate of liability is 7.92%. The maturity date is on the fifth anniversary of the date of issue of the CB III.

The Group may redeem the CB II & III at 105% of the principal outstanding amount at any time from the date of issue to the maturity date. Any CB II & III outstanding on the maturity date shall be redeemed by the Company at 105% of the outstanding principal amount.

**11. Convertible bonds (continued)**

The movement of liabilities component of the Convertible Bonds for the year is set out below:

	<b>THE GROUP AND THE COMPANY</b>		
	<b>CB I</b>	<b>CB II</b>	<b>CB III</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Proceeds of issue	465,000	100,000	236,376
Equity component	<u>(52,898)</u>	<u>(18,252)</u>	<u>(12,554)</u>
Liability component at date of issue	412,102	81,748	223,822
Interest charged	24,655	4,686	-
Converted into ordinary shares	<u>(365,192)</u>	<u>(41,507)</u>	<u>-</u>
Non-current liability component at 31 December 2013	71,565	44,927	-
Imputed finance cost	7	1,089	4,178
Converted into ordinary shares	<u>(71,572)</u>	<u>-</u>	<u>(118,258)</u>
Non-current liabilities component as at 30 June 2014	<u>-</u>	<u>46,016</u>	<u>109,742</u>

**12. Dividend**

The Board of the Company does not recommend the payment of an interim dividend throughout the six months ended 30 June 2014.

**13. Charge on group's assets**

As at 30 June 2014, the Group's motor vehicles with carrying value amounting to HK\$870,000 were pledged to the financial institution. Saving as disclosed above, no other group assets were charged or pledged to secure any loans or borrowings.

**14. 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 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 first half year of 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 first half year of 2014. 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 six months ended 30 June 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 six months period ended 30 June 2014, the revenue of the Group from continuing operations were approximately HK\$81.69 million and HK\$179.71 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\$41.12 million. The entire revenue is generated from the retail and wholesales of diamonds, jade and other gemstones.

### **Other revenues**

For the six months ended 30 June 2014, the Group obtained approximately HK\$102,000 in other revenues from continuing operations including bank interest income of HK\$24,000.

### **Selling and distribution expenses**

Selling and distribution expenses from continuing operations decreased to approximately HK\$22.26 million for the six months ended 30 June 2014 from HK\$31.21 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 decreased from approximately HK\$16.12 million for the six months ended 30 June 2013 to approximately HK\$13.09 million in the corresponding period in 2014, primarily due to the decrease in employee remuneration and depreciation in 2014.

### **Finance costs**

Finance costs from continuing operations was HK\$9.28 million for the six months ended 30 June 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 profit attributed to shareholders decreases by 90% from approximately HK\$24.50 million for the six months ended 30 June 2013 to approximately HK\$2.46 million in the corresponding period in 2014. The decrease was mainly attributed to slowing economic growth in Mainland China.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The bank balances and cash of the Group was amounting to HK\$1.68 million as at 30 June 2014. This represented an increase of 107% as compared with the position as at 31 December 2013 of HK\$0.81 million.

## **CAPITAL STRUCTURE**

Convertible bonds in the original principal amount of HK\$465 million ("CB I") was issued by the Company in prior years. It was fully converted during the period.

In 2012, the Group issued convertible bonds in the original principal amount of HK\$100 million ("CB II"). For the CB II, approximately HK\$50 million was converted in 2012. As at 30 June 2014, principal amounts of HK\$50 million CB II was outstanding with conversion price of HK\$2.45 per share.

In March 2014, the Group issued convertible bonds with principal amount of HK\$312 million (the "CB III") as final consideration for the acquisition of 100% equity interest in Million Zone Holdings Limited. For the CB III, approximately HK\$118 million was converted during the six months ended 30 June 2014. As at 30 June 2014, principal amount of HK\$109 million CB III was outstanding with conversion price of HK\$2.45 per share.

As at 30 June 2014, the Group's gearing ratio (total liabilities by total assets) is 55% (31 December 2013: 79%). It is anticipated that the Group should have adequate financial resources to meet its ongoing operating and development requirements.

## **CHARGE ON GROUP ASSETS**

As at 30 June 2014, the Group's motor vehicles with carrying value amounting to HK\$870,000 were pledged to the financial institution. Saving as disclosed above, no other group assets were charged or pledged to secure any loans or borrowings.

## **FOREIGN EXCHANGE EXPOSURE**

Since the Group's sales, purchases and loans were substantially denominated in either Renminbi or Hong Kong Dollar, the Directors of the Company consider that the potential foreign exchange exposure of the Group is limited.

## **CONTINGENT LIABILITIES**

As at 30 June 2014, the Group did not have any material contingent liabilities.

## **STAFF AND REMUNERATION POLICIES**

As at 30 June 2014, the Group employed a workforce with head count of approximately 160, the majority of whom were employed in the PRC. Employee benefit expenses from continuing operations, including directors' emoluments, amounted to approximately HK\$8.27 million. The Group's remuneration policy has been in line with the prevailing market practice including discretionary bonus and remunerates its employees based on their performance and contribution. Other benefits include contributions to retirement scheme and medical insurance.

## **ACQUISITIONS OF SUBSIDIARIES AND AFFILIATED COMPANIES**

Save as disclosed above, the Group had no other acquisitions or disposals of subsidiaries and affiliated companies for the year ended 30 June 2014.

## **FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS**

Save as disclosed above, the Group did not have any future plans for material investments or capital assets as at 30 June 2014.



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

As at 30 June 2014, the interests and short positions of the Directors and the chief executive 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	-	3.71%

*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 June 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 June 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	11.66%
Ardon Maroon Asia Master Fund <i>(Note 2)</i>	Beneficial	37,400,000	–	37,400,000	6%
Twin Wins Capital Limited <i>(Note 3)</i>	Beneficial	–	32,448,979	32,448,979	5.8%

#### 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. Ardon Maroon Asia Master Fund is beneficially owned as to 100% by Ardon Maroon Asia Dragon Feeder Fund, Ardon Maroon Asia Eagle Feeder Fund and Ardon Maroon Fund Management Limited. Therefore, the aforesaid companies are deemed to be interested in the shares of Ardon Maroon Asia Master Fund.
3. Twin Wins is wholly owned by Liu Qiang who is deemed to be interested in the shares.

Save as disclosed above, as at 30 June 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 on 30 July 2007 (“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 grant options to any eligible person to subscribe for the shares of the Company (“Share”) 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 Share 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 or 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 adoption the Scheme.

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

## **COMPETING INTERESTS**

The directors of the Company are not aware of, as at 30 June 2014, any business or interests of each directors of the Company, management shareholders and the respective associates (as defined in the GEM Listing Rules) of each that compete or may compete 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 (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 emphasis 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 June 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 six months ended 30 June 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 six months ended 30 June 2014.

On behalf of the Board

**CHINA FORTUNE INVESTMENTS (HOLDING) LIMITED**

**Cheng Chun Tak and Wan Zihong**

*Co-Chairmen*

Hong Kong, 14 August 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.*