



CHINA FORTUNE INVESTMENTS 中國幸福投資

First Quarterly Report 2015



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 approximately HK\$29.12 million for the three months ended 31 March 2015 and HK\$53.16 million for the three months ended 31 March 2014. Gross profit is approximately HK\$13.11 million in 2015 and HK\$28.32 million in 2014;
- Recorded an unaudited loss attributable to the equity holders of the Company of approximately HK\$10.91 million, for the three months ended 31 March 2015;
- The Directors do not recommend the payment of a dividend for the three months ended 31 March 2015.

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 ended 31 March 2015, 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 ended 31 March 2015

		(Unaudited)	
		For the three months	
		ended 31 March	
		2015	2014
	NOTES	HK\$'000	HK\$'000
Revenue	2	29,115	53,156
Cost of sales		<u>(16,002)</u>	<u>(24,840)</u>
Gross profit		13,113	28,316
Other income and gains, net	2	531	36
Selling and distribution expenses		(8,124)	(11,914)
Administrative expenses		(10,769)	(9,581)
Fair value gain on derivatives financial instrument transaction not qualifying as hedges		–	9,932
Loss on early redemption of convertible bonds, net		(2,445)	–
Finance costs		<u>(3,215)</u>	<u>(4,562)</u>
(Loss)/profit before income tax expenses		(10,909)	12,227
Income tax expenses	3	<u>–</u>	<u>(3,209)</u>
(Loss)/profit for the period		(10,909)	9,018
Other comprehensive income			
Exchange difference on translation of foreign operations		231	108
Other comprehensive income for the period, net of tax		<u>231</u>	<u>108</u>
Total comprehensive income for the period		<u>(10,678)</u>	<u>9,126</u>



(Unaudited)
For the three months
ended 31 March

	NOTES	2015 HK\$'000	2014 HK\$'000
(Loss)/profit attributable to Shareholders of the Company		<u>(10,909)</u>	<u>9,018</u>
Total comprehensive (expenses)/income attributable to Shareholders of the Company		<u>(10,678)</u>	<u>9,126</u>
(Loss)/earnings per share attributable to Shareholder of the Company	4		
Basic (HK cents per share)		<u>(0.57)</u>	<u>0.36</u>
Diluted (HK cents per share)		<u>(0.47)</u>	<u>0.48</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2015 (unaudited)

	Share Capital HK\$'000	Share Premium HK\$'000	Merger Reserve HK\$'000	General Reserve HK\$'000	Convertible Bonds Equity Reserve HK\$'000	Exchange Currency Translations Reserves HK\$'000	Accumulated Losses HK\$'000	Total HK\$'000
Three months ended 31 March 2014								
At 1 January 2014	221,432	1,311,243	(46,815)	2,817	16,443	2,012	(1,333,751)	173,381
Issue of shares	17,535	202,767	-	-	(14,388)	-	-	205,914
Capital reduction	(236,088)	-	-	-	-	-	236,088	-
Exchange difference on translation of foreign operations	-	-	-	-	-	108	-	108
Issue of convertible bonds	-	-	-	-	12,554	-	-	12,554
Total comprehensive income attributable to shareholders	-	-	-	-	-	-	9,018	9,018
At 31 March 2014	<u>2,879</u>	<u>1,514,010</u>	<u>(46,815)</u>	<u>2,817</u>	<u>14,609</u>	<u>2,120</u>	<u>(1,088,645)</u>	<u>400,975</u>
Three months ended 31 March 2015								
At 1 January 2015	3,116	1,531,679	(46,815)	2,817	14,652	(4,004)	(1,118,359)	383,086
Issue of shares	6,855	129,986	-	-	-	-	-	136,841
Early redemption of convertible bonds	-	-	-	-	(12,761)	-	-	(12,761)
Exchange difference on translation of foreign operations	-	-	-	-	-	231	-	231
Total comprehensive income attributable to shareholders	-	-	-	-	-	-	(10,909)	(10,909)
At 31 March 2015	<u>9,971</u>	<u>1,661,665</u>	<u>(46,815)</u>	<u>2,817</u>	<u>1,891</u>	<u>(3,773)</u>	<u>(1,129,268)</u>	<u>496,488</u>

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 2014. The condensed consolidated results have not been audited by the Company's auditors, but have been reviewed by the Company's audit committee.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle ⁴
HKFRS 9	Financial Instruments ⁶
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendments to HKFRS 10, HKFRS12 and HKAS 28 (2011)	Investment Entities: Applying the Consolidation Exception ⁴
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations ⁴
HKFRS 14	Regulatory Deferral Accounts ³
HKFRS 15	Revenue from Contracts with Customers ⁵
Amendments to HKAS 1	Disclosure Initiative ⁴
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ⁴
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants ⁴
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions ⁴
Amendments to HKAS 27	Equity Method in Separate Financial Statements ⁴

¹ Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.

² Effective for annual periods beginning on or after 1 July 2014, with limited exceptions. Earlier application is permitted.

³ Effective for first annual HKFRS financial statements beginning on or after 1 January 2016, with earlier application permitted.

⁴ Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

⁵ Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

⁶ Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

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 is as follows:

	(Unaudited)	
	For the three months	
	ended 31 March	
	2015	2014
	HK\$'000	HK\$'000
Revenue		
Sales of goods	29,115	53,156
Other income and gains, net		
Bank interest income	1	7
Others	530	29
	531	36



3. Income tax expenses

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

		(Unaudited)	
		For the three months	
		ended 31 March	
		2015	2014
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong profits tax	(i)	–	–
Overseas taxation	(ii)	–	3,209
		–	3,209

Notes:

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

4. (Loss)/profit per share

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

	(Unaudited)	
	For the three months	
	ended 31 March	
	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
(Loss)/profit for the period		
(Loss)/profit for the period attributable to owners of the Company	(10,909)	9,018
Effect of dilutive potential ordinary share:		
Interest on convertible bonds (net of tax)	1,763	5,161
(Loss)/profit for the purpose of diluted (loss)/profit per share	(9,146)	14,179

4. (Loss)/profit per share (continued)

	(Unaudited)	
	As at 31 March	
	2015	2014
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss)/profit per share	1,913,730,047	2,523,752,379
Effect of dilutive potential ordinary share:		
Convertible bonds	22,285,714	404,489,797
Weighted average number of ordinary shares for the purpose of diluted (loss)/profit per share	1,936,015,761	2,928,242,176

5. Dividend

The Board does not recommend the payment of a dividend for the three months ended 31 March 2015 (2014: Nil).

6. Comparative figures

Certain comparative figures have been reclassified to conform with current period'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.

The Chinese economy slowed down in 2014 amidst credit tightening and the anticorruption measures taken by the PRC government. Those factors have caused overall slackening in consumption and the luxury sector was particularly adversely affected. The Directors hope that the luxury market in China will rebound in second half of 2015.

Our retail shops City-In-Love positions itself as a distributor in the diamonds and gemstone industry. City-In-Love acquires diamond merchandise through lower margin deposits and credit period with the sales of all diamonds in diamond hypermarket. 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

City-In-Love integrated its Beijing markets with currently three stores. Besides the 3 chain stores in Beijing, the Group operated its stores in Shenyang and Chengdu. In 2015, the Group upheld a conservative strategy for the diamonds and gemstone business.



IV. Development planning

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

Besides the retail and wholesale of diamonds and gemstone, the Directors will consider franchise projects in PRC. The Group has been actively seeking interested parties for franchise of the Group's retail brands in different regions. Under the franchise model, the Group will allow the franchisee to use the Group's branding and image and will supply inventories to the franchisee. Hence it is expected that the franchise model will increase the Group's sales and will also enhance the Group's branding in different locations of the PRC.

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

FINANCIAL REVIEW

Revenue

For the three months ended 31 March 2015, the unaudited consolidated revenue of the Group was approximately HK\$29.12 million and HK\$53.16 million in the corresponding period in 2014. The entire revenue is generated from retail and wholesales of diamonds, jade and other gemstones.

Other revenue

For the three months ended 31 March 2015, the Group obtained approximately HK\$531,000 in other revenues including bank interest income of HK\$1,000.

Selling and distribution expenses

Selling and distribution expenses decreased to approximately HK\$8.12 million for the three months ended 31 March 2015 from HK\$11.91 million in the corresponding period in 2014, mainly due to decrease in employee remuneration and rental expenses for the diamond and jewellery business in 2015.

Administrative expenses

Administrative expenses increased from approximately HK\$9.58 million for the three months ended 31 March 2014 to approximately HK\$10.77 million in the corresponding period in 2015, primarily due to the increase in consultancy and professional fee in 2015.

Finance costs

Finance costs decreased from HK\$4.56 million for the three months ended 31 March 2014 to approximately HK\$3.22 million in the corresponding period in 2015. The finance costs were mainly consisted of convertible bonds imputed interest and interest in bank borrowings. The decrease of finance costs mainly attributable to early redemption of convertible bonds in 2015.

Results for the period

The unaudited loss attributed to shareholders approximately HK\$10.91 million for the three months ended 31 March 2015 and unaudited profit attributed to shareholders was approximately HK\$9.02 million in the corresponding period in 2014. The loss was mainly attributed to slowing economic growth in Mainland China.



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

As at 31 March 2015, 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	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	–	1.07%
Mr. Xue Huixuan (<i>Note 2</i>)	Beneficial	–	22,285,714	1.12%

Notes:

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 31 March 2015, 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 31 March 2015, 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
Shiny Valour Limited (<i>Note 1</i>)	Beneficial	152,000,000	-	152,000,000	7.62%

Note:

1. Shiny Valour Limited is wholly owned by Yao Yi Yi who is deemed to be interested in the share.

Save as disclosed above, as at 31 March 2015, 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 a 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 31 March 2015, no share options were outstanding.

COMPETING INTERESTS

The directors of the Company are not aware of, as at 31 March 2015, 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 competes 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 31 March 2015.

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 Corporate Governance Code 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 three months ended 31 March 2015 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 three months ended 31 March 2015.

By order of the Board of
CHINA FORTUNE INVESTMENTS (HOLDING) LIMITED
Cheng Chun Tak and Wan Zihong
Co-Chairmen

Hong Kong, 14 May 2015

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.