



CHINA FORTUNE INVESTMENTS

中國幸福投資

Half-Year 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)

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FINANCIAL HIGHLIGHT

- Recorded an unaudited turnover of the Group approximately HK\$53.69 million for the six months ended 30 June 2015 and HK\$81.69 million for the six months ended 30 June 2014. Gross profit in 2015 is approximately HK\$22.57 million and approximately HK\$41.12 million in 2014;
- Recorded an unaudited loss attributable to the equity holders of the Company amounted to approximately HK\$15.41 million, for the six months ended 30 June 2015;
- The Board do not recommend the payment of an interim dividend for the six months ended 30 June 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 six months ended 30 June 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 six months ended 30 June 2015

	NOTES	Unaudited Three months ended 30 June 2015		Unaudited Six months ended 30 June 2015	
		HK\$'000	2014 HK\$'000	HK\$'000	2014 HK\$'000
Revenue	2	24,553	28,529	53,668	81,685
Cost of sales		(15,093)	(15,726)	(31,095)	(40,566)
Gross profit		9,460	12,803	22,573	41,119
Other income and gains, net	2	133	66	664	102
Selling and distribution expenses		(4,317)	(10,344)	(12,441)	(22,258)
Administrative expenses		(7,035)	(3,504)	(17,804)	(13,085)
Other expenses		(283)	–	(283)	–
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		(2,461)	(4,720)	(5,676)	(9,282)
(Loss)/profit before income tax expense	4	(4,503)	(5,699)	(15,412)	6,528
Income tax expenses	5	–	(861)	–	(4,070)
(Loss)/profit for the period		(4,503)	(6,560)	(15,412)	2,458
Other comprehensive income/(expenses):					
Exchange differences on translation of financial statements of foreign operations		(40)	1	191	109
Other comprehensive income/(expenses) for the period, net of tax		(40)	1	191	109
Total comprehensive (expenses)/income for the period		(4,543)	(6,559)	(15,221)	2,567



	NOTES	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000
(Loss)/profit attributable to:					
Shareholders of the Company		<u>(4,503)</u>	<u>(6,560)</u>	<u>(15,412)</u>	<u>2,458</u>
Total comprehensive (expenses)/income attributable to:					
Shareholders of the Company		<u>(4,543)</u>	<u>(6,559)</u>	<u>(15,221)</u>	<u>2,567</u>
(Loss)/earnings per share attributable to Shareholder of the Company					
Basic (<i>HK cents per share</i>)	6	<u>(0.21)</u>	<u>(1.17)</u>	<u>(0.81)</u>	<u>0.44</u>
Diluted (<i>HK cents per share</i>)		<u>(0.17)</u>	<u>(1.17)</u>	<u>(0.65)</u>	<u>1.20</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2015

		Unaudited As at 30 June 2015 <i>HK\$'000</i>	Audited As at 31 December 2014 <i>HK\$'000</i>
	<i>NOTES</i>		
Non-current assets			
Property, plant and equipment	7	19,812	24,010
Deposit and prepayments		6,188	5,312
Goodwill		372,399	372,399
Deferred tax asset		674	674
		399,073	402,395
Current assets			
Inventories		279,305	233,442
Trade receivables	8	9,352	381
Promissory note receivable		17,600	80,000
Other receivables, deposits and prepayments		91,930	128,254
Cash and bank balances		193,331	1,226
		591,518	443,303
Current liabilities			
Trade payables	9	19,272	18,537
Accruals, other payables and deposits received		106,654	179,603
Interest-bearing bank borrowings		81,596	81,835
Amounts due to directors		6,698	11,748
Tax payable		6,928	9,250
		221,148	300,973
NET CURRENT ASSETS		370,370	142,330
TOTAL ASSETS LESS CURRENT LIABILITIES		769,443	544,725



		Unaudited	Audited
		As at	As at
		30 June	31 December
		2015	2014
	<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current liabilities			
Convertible bonds	11	142,532	161,135
Interest-bearing bank borrowings		203	504
Total non-current liabilities		142,735	161,639
NET ASSETS		626,708	383,086
EQUITY			
Capital and reserves			
Issued capital	10	11,965	3,116
Reserves		614,743	379,970
TOTAL EQUITY		626,708	383,086

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2015

	Unaudited Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Net cash (outflow)/inflow from operating activities	(39,903)	173,792
Net cash inflow/(outflow) from investing activities	731	(1,391)
Net cash inflow/(outflow) from financing activities	232,064	(167,464)
Increase in cash and cash equivalents	192,892	4,937
Effect of foreign exchange rate changes	(787)	166
Cash and cash equivalents at the beginning of the period	1,226	8,500
Cash and cash equivalents at the end of the period	193,331	13,603
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	193,331	1,677
Pledged bank deposits	–	11,926
Cash and cash equivalents at the end of the period	193,331	13,603

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2015 (unaudited)

	Share Capital <i>HK\$'000</i>	Share Premium <i>HK\$'000</i>	Merger Reserve <i>HK\$'000</i>	General Reserve <i>HK\$'000</i>	Convertible Bonds Equity Reserve <i>HK\$'000</i>	Exchange Currency Translations Reserves <i>HK\$'000</i>	Accumulated Losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
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)	173,381
Issue of shares	17,772	220,478	-	-	(14,388)	-	-	223,862
Capital reduction	(236,088)	-	-	-	-	-	236,088	-
Exchange difference on translation of foreign operations	-	-	-	-	-	109	-	109
Issue of convertible bonds	-	-	-	-	12,554	-	-	12,554
Total comprehensive income attributable to shareholders	-	-	-	-	-	-	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
Six months ended 30 June 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	8,849	241,660	-	-	-	-	-	250,509
Early redemption of convertible notes	-	-	-	-	(12,761)	-	-	(12,761)
Exchange difference on translation of foreign operations	-	-	-	-	-	191	-	191
Issue of convertible bonds	-	-	-	-	21,095	-	-	21,095
Total comprehensive income/(expense) attributable to shareholders	-	-	-	-	-	-	(15,412)	(15,412)
At 30 June 2015	11,965	1,773,339	(46,815)	2,817	22,986	(3,813)	(1,133,771)	626,708

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 ¹
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) Three months ended 30 June		(Unaudited) Six months ended 30 June	
	2015	2014	2015	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue				
Sales of goods	24,553	28,529	53,668	81,685
Other income and gains, net				
Bank interest income	1	17	2	24
Others	132	49	662	78
	133	66	664	102

3. **Operating segment information**

For management purposes, the Group 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. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) before tax 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 2015 (Unaudited):

	(Unaudited) For the six months ended 30 June 2015 HK\$'000	2014 HK\$'000
Segment revenue		
Sales to external customers	53,668	81,685
Segment results	(309)	7,990
<i>Reconciliation:</i>		
Other income	2	97
Fair value gain on derivatives financial instrument transaction not qualifying as hedges	-	9,932
Loss on early redemption of convertible bonds, net	(2,445)	-
Corporate and other unallocated expenses	(9,587)	(10,258)
Finance costs	(3,073)	(5,303)
(Loss)/profit for the period	(15,412)	2,458

Geographical information

(a) *Revenue from external customers*

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

(b) *Non-current assets*

	(Unaudited) As at ended 30 June 2015 HK\$'000	(Audited) As at 31 December 2014 HK\$'000
Mainland China	390,973	395,489
Hong Kong	1,238	920
	392,211	396,409

4. (Loss)/profit before income tax expenses

	Three months ended 30 June		Six months ended 30 June	
	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000
(Loss)/profit before tax has been arrived after charging:				
Cost of sales	15,093	15,726	31,095	40,566
Depreciation of property, plant and equipment	1,614	1,399	3,501	4,231
Operating lease rental in respect of rented premises	1,591	4,112	5,229	9,601
Staff costs, including directors' emoluments: – Basic salaries and other benefits	2,962	4,004	6,994	8,270

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	
		2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000
Hong Kong profits tax	(i)	–	–	–	–
Overseas taxation	(ii)	–	861	–	4,070
		–	861	–	4,070

- (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. **(Loss)/profit per share**

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

	(Unaudited)	
	For the six months	
	ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
(Loss)/profit for the period		
(Loss)/profit for the period attributable to owners of the Company	(15,412)	2,458
Effect of dilutive potential ordinary share:		
Interest on convertible bonds (net of tax)	<u>2,586</u>	<u>5,253</u>
(Loss)/profit for the purpose of diluted (loss)/profit per share	<u>(12,826)</u>	<u>7,711</u>
	(Unaudited)	
	As at 30 June	
	2015	2014
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss)/profit per share	1,913,365,260	559,307,961
Effect of dilutive potential ordinary share:		
Convertible bonds	<u>53,401,736</u>	<u>80,897,959</u>
Weighted average number of ordinary shares for the purpose of diluted (loss)/profit per share	<u>1,966,766,996</u>	<u>640,205,920</u>

7. Property, plant and equipment

	Unaudited	Audited
	30 June	31 December
	2015	2014
	HK\$'000	HK\$'000
Net book value as at 1 January	24,010	34,144
Additions	738	1,454
Depreciation	(3,501)	(10,868)
Elimination upon disposal	(1,467)	(16)
Exchange rate adjustment	32	(704)
Net book value, end of the period/year	19,812	24,010

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	31 to	61 to	91 to	Over	Total
	30 days	60 days	90 days	180 days	180 days	HK\$'000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 30 June 2015	<u>9,329</u>	<u>-</u>	<u>-</u>	<u>23</u>	<u>-</u>	<u>9,352</u>
As at 31 December 2014	<u>381</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>381</u>

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	31 to	61 to	91 to	Over	Total
	30 days	60 days	90 days	180 days	180 days	HK\$'000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 30 June 2015	<u>766</u>	<u>858</u>	<u>1,705</u>	<u>1,173</u>	<u>14,770</u>	<u>19,272</u>
As at 31 December 2014	<u>1,920</u>	<u>370</u>	<u>729</u>	<u>5,472</u>	<u>10,046</u>	<u>18,537</u>

10. Share capital

	The Company			
	30 June 2015		31 December 2014	
	Number of share of HK\$0.005 each	Nominal Value HK\$'000	Number of share of HK\$0.005 each	Nominal Value HK\$'000
Authorised:				
Ordinary shares	100,000,000,000	500,000	100,000,000,000	500,000
Issued and fully paid:				
At 1 January	623,202,176	3,116	2,214,317,006	221,432
Capital reduction	-	-	-	(236,088)
Consolidation of shares	-	-	(2,492,808,706)	-
Issue of new shares	1,769,804,352	8,849	397,000,000	397
Exercise of convertible bonds	-	-	504,693,876	17,375
At 30 June	2,393,006,528	11,965	623,202,176	3,116

11. Convertible bonds

In April 2012, the Group issued convertible bonds with a principal amount of HK\$100 million ("CB I") due in 2017 with conversion price of HK\$2.45 per share. The CB I do not bear any interest. The effective interest rate of liability is 4.91%. It has been fully converted into ordinary shares in February 2015.

In January 2014, the Group issued convertible bonds with principal amount of HK\$312 million (the "CB II") 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 II 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 II. As at 30 June 2015, the CB II with an aggregate principal amount of HK\$54,600,000 remained outstanding.

In June 2015, the Group issued convertible bonds with principal amount of HK\$120 million (the "CB III") due in 2017 with conversion price of HK\$0.25 per share to raise funds for the future business development of the Group. The CB III do not bear any interest. The effective interest rate of liability is 12.87%. The maturity dates is on the second 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:

	THE GROUP AND THE COMPANY		
	CB I	CB II	CB III
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Proceeds of issue	100,000	236,376	120,000
Equity component	<u>(18,252)</u>	<u>(12,554)</u>	<u>(21,096)</u>
Liability component at date of issue	81,748	223,822	98,904
Interest charged	6,892	8,438	-
Converted into ordinary shares	<u>(41,507)</u>	<u>(118,258)</u>	<u>-</u>
Non-current liability component at 31 December 2014	47,133	114,002	-
Imputed finance cost	188	2,398	-
Converted into ordinary shares	<u>(47,321)</u>	<u>(72,772)</u>	<u>-</u>
Non-current liabilities component as at 30 June 2015	<u>-</u>	<u>43,628</u>	<u>98,904</u>

12. Dividend

The Board of the Company does not recommend the payment of an interim dividend throughout the six months ended 30 June 2015.

13. Charge on group's assets

As at 30 June 2015, the Group's motor vehicles with carrying value amounting to HK\$685,000 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.

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.

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 had no other significant acquisition or disposal of investments for the six months ended 30 June 2015.

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

FINANCIAL REVIEW

Revenue

For the six months period ended 30 June 2015, the revenue of the Group were approximately HK\$53.67 million and HK\$81.69 million in the corresponding period in 2014. The decrease in revenue was mainly due to sluggish economic environment in PRC. Gross profit is approximately HK\$22.57 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 2015, the Group obtained approximately HK\$664,000 in other revenues including bank interest income of HK\$2,000.

Selling and distribution expenses


Selling and distribution expenses decreased to approximately HK\$12.44 million for the six months ended 30 June 2015 from HK\$22.26 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\$13.09 million for the six months ended 30 June 2014 to approximately HK\$17.80 million in the corresponding period in 2015, primarily due to the increase in consultancy fee and in 2015.

Finance costs

Finance costs were approximately HK\$5.67 million for the six months ended 30 June 2015 and HK\$9.28 million in the corresponding period in 2014. The finance costs were mainly consisted of convertible bonds imputed interest and interest in bank borrowings. The decrease of finance costs mainly attributable to decrease in the interest on convertible bonds in 2015.



Results of the period

The unaudited loss attributed to shareholders approximately HK\$15.41 million for the six months ended 30 June 2015 and unaudited profit attributed to shareholders 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\$193.33 million as at 30 June 2015 and HK\$1.23 million as at 31 December 2014.

CAPITAL STRUCTURE

Convertible bonds in the original principal amount of HK\$100 million ("CB I") issued by the Group in 2012 was fully converted during the period.

In January 2014, the Group issued convertible bonds with principal amount of HK\$312 million (the "CB II"). For the CB II, approximately HK\$72.7 million was converted during the six months ended 30 June 2015. As at 30 June 2015, principal amount of HK\$54.60 million CB II was outstanding with conversion price of HK\$2.45 per share.

In June 2015, the Group issued convertible bonds with principal amount of HK\$120 million (the "CB III") to raise funds for the future business developments of the Group. The CB III do not bear any interest. The effective interest rate of liability is 12.87%. The maturity dates is on the second anniversary of the date of issue of the CB III. The CB III has not been converted as at 30 June 2015.

As at 30 June 2015, the Group's gearing ratio (total liabilities by total assets) is 37% (31 December 2014: 55%). 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 2015, the Group's motor vehicles with carrying value amounting to HK\$685,000 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 2015, the Group did not have any material contingent liabilities.

STAFF AND REMUNERATION POLICIES

As at 30 June 2015, the Group employed a workforce with head count of approximately 105, the majority of whom were employed in the PRC. Employee benefit expenses from continuing operations, including directors' emoluments, amounted to approximately HK\$6.99 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 2015.

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 2015.

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

As at 30 June 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 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	–	0.89%
Mr. Xue Huixuan (<i>Note 2</i>)	Beneficial	–	22,285,714	0.93%

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 30 June 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 30 June 2015, 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	Beneficial	152,000,000	-	152,000,000	6.35%

Note:

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

Save as disclosed above, as at 30 June 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 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 2015, no share options were outstanding.

COMPETING INTERESTS

The directors of the Company are not aware of, as at 30 June 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 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 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 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 currently comprises two independent non-executive Directors of the Company, namely Mr. Lee Chi Hwa Joshua (Chairman) and Mr. Chang Jun. On 31 July 2015, Mr. Tso Hon Sai Bosco ("Mr. Tso") has resigned as the independent non-executive Director and members of audit committee and nomination committee and remuneration committee. The Company is currently identifying a suitable candidate to fill the aforesaid vacancy and expects vacancy to be filled within 3 months from the date of the resignation pursuant to the GEM Listing Rules. The Group's unaudited results for the six months ended 30 June 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 six months ended 30 June 2015.

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

Hong Kong, 14 August 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 three independent non-executive Directors, namely Mr. Chang Jun, Mr. Lee Chi Hwa Joshua and Ms. Ching Wai Han.