Zacks Small-Cap Research

November 23, 2015

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Chineseinvestors.com, Inc. (CIIX-OTCBB)

CIIX: Updated Approach to Offering Investor Relations Services

Current Recommendation	**Hold**
Prior Recommendation	N/A
Date of Last Change	2/19/2015
Current Price (11/20/15)	$0.35
Six- Month Target Price	**$1.00**

OUTLOOK

Chinese Investors has realigned its investor relations business to focus on generating cash revenue versus stock compensation and on companies management believes have strong prospects, such as Nova Lifestyles, a furniture company that was founded in China in 1992. Nova reported 3Q15 results last week. Revenue came in at $29.0M, up 12% from $25.9M registered in 3Q14. Nova management indicated that it is optimistic about the upcoming holiday season and about 2016. If Nova is successful at executing its strategy, it could lead to appreciation of the Nova shares held by Chinese Investors, we believe.

SUMMARY DATA

52-Week High	**$0.80**
52-Week Low	**$0.25**
One-Year Return (%)	**-10.3**
Beta	**0.45**
Average Daily Volume (sh)	**4,575**
Shares Outstanding (mil)	**7**
Market Capitalization ($mil)	**$2.5**
Short Interest Ratio (days)	**0.0**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**15**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**NM**
P/E using 2016 Estimate	**NM**
P/E using 2017 Estimate	**NM**

Risk Level	**Above Average**
Type of Stock	**Small Growth**
Industry	**Internet-Services**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Aug)	Q2 (Nov)	Q3 (Feb)	Q4 (May)	Year (May)
2013	0.4 A	0.5 A	0.3 A	0.4 A	1.6 A
2014	0.5 A	0.8 A	1.4 A	1.2 A	3.9 A
2015	0.6 A	0.5 A	0.8 A	0.5 E	2.4 A
2016	0.2 A	0.3 E	0.4 E	0.3 E	1.2 E

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Aug)	Q2 (Nov)	Q3 (Feb)	Q4 (May)	Year (May)
2013	-$0.05 A	-$0.06 A	-$0.07 A	-$0.03 A	-$0.21 A
2014	$0.00 A	$0.04 A	$0.14 A	$0.01 A	$0.18 A
2015	-$0.02 A	-$0.01 A	-$0.06 A	-$0.42 A	-$0.51 A
2016	-$0.11 A	-$0.09 E	-$0.08 E	-$0.10 E	-$0.38 E

Disclosures begin on page 9

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KEY POINTS

- Chinese Investors is realigning its investor relations business to focus on generating cash revenue versus stock compensation and on companies management has identified as having strong prospects. One such IR client is Nova Lifestyles.

- Nova Lifestyle is a furniture company that was founded in China in 1992. Nova reported 3Q15 results last week. Revenue came in at $29.0 million, up from $25.9 million registered in the third quarter of 2014. That represents a 12% year-over-year advance. Revenue in the quarter was driven by sales growth in the U.S. and China, which are the company's two largest markets. Nova has expanded direct sales into the U.S., which management indicated has had a positive impact on revenue and net income and also helped diversify the company's customer base. The U.S. accounted for roughly 75% of total sales during the quarter.

- Nova also registered double-digit growth in China and is expanding its franchise store concept, as well as its e-commerce platform. The company also believes that its status as an approved IKEA vendor has had a positive impact on sales in China, reflecting the expansion and growing adoption of its product line in the market. The company's most popular furniture category is dining tables, according to Nova management, followed by sofas and cabinetry. If Nova is successful at executing its strategy, it could lead to appreciation of the Nova shares held by Chinese Investors, we believe.

FIRST QUARTER FY 2016 HIGHLIGHTS

Last month, Chinese Investors (CIIX-OTCBB), which delivers investment news, market commentary and analysis in Chinese, reported results for the first quarter of fiscal 2016. The company's fiscal year ends in May. The company's revenue for its fiscal first quarter ended August 31, 2015 came in at $166,328 compared to $644,787 recorded in the first quarter of fiscal 2014. Chineseinvestors.com reported a comprehensive loss / share of ($0.11) compared to $0.02 recognized in the fiscal 2014 first quarter.

Comparisons between the two years is not entirely apples-to-apples, management believes, as the company is realigning its investor relations business to focus on generating cash revenue versus stock compensation and on companies management has identified as having strong prospects. One such IR client is Nova Lifestyles, discussed below. By comparison, revenue in prior periods was positively impacted by non-cash stock compensation from IR clients. Management has indicted that CIIX's strategy regarding accepting stock compensation in lieu of cash payment has become more conservative. Management has reduced the level of IR engagement it has accepted on a stock for services basis.

According to its recent 10-Q, in 1Q FY16, the company received non-cash revenue of $19,998 during the period compared to $284,250 in last year's first quarter. This contributed to lower IR revenue reported in 1Q FY16 of $51,783 compared to $480,372 registered in the fiscal 2015 first quarter. Shares of stock and warrants for IR work to be provided through June 2016 were valued at $152,778 as of August 31, 2015, down from $173,611 at May 31, 2015. This balance will be reduced as Chinese Investors earns the fee for providing this work. We have revised our 2016 forecast to reflect recent trends.

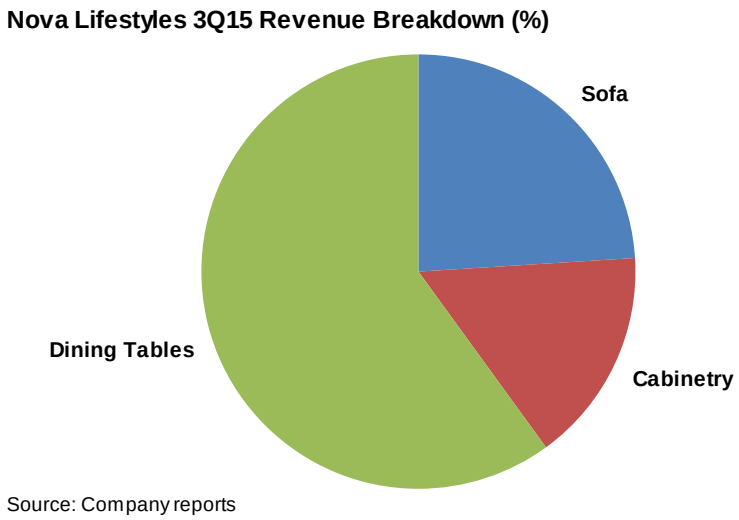
The company raised $530,000 through the sale of preferred B shares. At the end of 1Q of FY 2015, CIIX's cash balance was $261,995 compared to $498,189 at the end of FY 2015.

Nova Lifestyle

Nova Lifestyle (NVFY-not rated) is a furniture company that was founded in China in 1992. It operates manufacturing plants in China and the U.S. and generated $80.2 million in revenue in the first nine months of 2015. In June 2012, CIIX formed an agreement to provide certain advertising and other services to Nova Lifestyle. Chineseinvestors.com also received 100,000 restricted shares of NVFY stock. In June of 2015, Nova Lifestyle announced that its board had formed a special committee to consider strategic alternatives, including potential investments from investors that have indicated an interest in Nova Lifestyle.

Nova reported 3Q15 results last week. Revenue came in at $29.0 million, driven by sales growth in the U.S. and China, which are the company's two largest markets. That represents a 12% year-over-year advance. Nova has expanded direct sales into the U.S., which management indicated has had a positive impact on revenue and net income and also helped diversify the company's customer base. The U.S. accounted for roughly 75% of total sales during the quarter.

The company registered double-digit growth in China and is expanding its franchise store concept, as well as its e-commerce platform. The company also believes that its status as an approved IKEA vendor has had a positive impact on sales in China, reflecting the expansion and growing adoption of its product line in the market. The company's most popular furniture category is dining tables, according to management, followed by sofas and cabinetry.



Source: Company reports

Nova's gross profit of $4.3 million fell 27% compared to 3Q14, while the gross profit margin of 15% compared to 23% in 3Q14. The gross margin compression primarily reflected the product mix during the quarter and the company's investment in inventory in preparation for what management expects will be a strong 4Q15. Nova indicated that it purchased additional materials from outside manufacturers in advance of 4Q15 pending sales, resulting in a timing mismatch between costs and revenue. Nova management indicated that it is optimistic about the upcoming holiday season and about 2016. Nova reported net Income or $0.03 million or $0.00/share versus $3.1 million or $0.15/share registered in 3Q14.

Medicine Man

CIIX and Denver based, privately-held Medicine Man Technologies announced an agreement in February, 2014 to form a new company to create licensing opportunities for Medicine Man, leveraging its expertise and IP. According to CIIX, Medicine Man of Denver was one of the first Colorado companies to receive a state license for recreational use of marijuana. The two companies also announced that they had signed their first licensee, McGraw Holdings, LLC of Illinois. In addition, Medicine Man Technologies has had advanced discussions and agreements with additional clients, according to CIIX management.

In April 2015, Medicine Man filed a registration statement to become a public company. CIIX management has indicated that it will assist Medicine Man with its planned IPO. CIIX received 2.8 million shares for its services. Depending on the performance of Medicine Man shares following a prospective IPO, CIIX might be able to generate a profit from the shares at some point down the road. Brett Roper, Medicine Man's Director of Licensing Services, is also a director on CIIX's board.

Because it is often not always easy for CIIX's subscribers to listen to English-language conference calls, the company's Shanghai editorial employees are fluent in English, according to management. They listen to management conference calls of IR clients and of companies that CIIX tracks and provide translations for their Chinese speaking subscribers. In addition, the editorial staff also monitors U.S. financial news sources such as CNBC and Bloomberg, among others, and translate news and developments for the company's subscriber base.

EXPANDING U.S. FOOTPRINT

Chinese Investors focuses primarily on trends of U.S. securities markets and U.S. stocks and other asset classes. In 2015, the company has expanded its footprint in the U.S., opening two new offices earlier this year to extend its coverage and reporting on U.S. securities.

Historically the company's strategy has been focused primarily Chinese investors living abroad in the U.S. and Canada, as noted. Management believes that it has early mover advantage in providing information and commentary to Chinese investors in Chinese on general market trends of a broad range of U.S. financial markets and company specific coverage. The company also covers Chinese A shares, the FX market and other securities in Chinese.

Management believes China's growing middle class is underserved in this arena. The company offers subscription services to provide education about investing and news and analysis on the stock market, as well as news about particular stocks that it tracks.

Investing abroad by wealthy Chinese individuals is expected to increase. High net worth Chinese have more than $450 billion in offshore assets, according to Boston Consulting Group, which expects that metric to roughly double over the next three years. Moreover, a rising percentage of Chinese individuals are also emigrating from China, with the U.S. and Canada cited as top relocation destinations. The company's strategy had been to target primarily Chinese investors living abroad in the U.S. and Canada.

Many wealthy Chinese relocate to the U.S. According to the U.S. Census Bureau, California and New York represent the states with the largest populations of Chinese Americans. Los Angeles and New York are the two largest DMAs (Designated Market Areas) in the country with households headed by Asian Americans, according to Nielsen rankings. With its expanded U.S. presence, the company hopes to better serve its target market. Having a location in the important Los Angeles market enables CIIX to interact with its target market more easily. For example, earlier this month, ChineseInvestors.com launched a seminar series from its Los Angeles office. The series, called

Smart Money, is the first local event the company sponsored since it opened the Los Angeles office. In addition to inviting investors to attend the live event, the company also offered a simultaneous radio broadcast and webcast on chinesefn.com.

In the first half of 2015, the company also opened a new office on Wall Street in the New York City financial district that is located near the New York Stock Exchange. In addition to the New York and Los Angeles offices, CIIX continues to operate branches in Denver and Shanghai, as well. Chinese Investors has also increased its staff in order to order to broaden its financial reporting and coverage.

INCREASING FOCUS ON INVESTORS IN CHINA

Over time, CIIX intends to increase its focus on investors residing in China, as well. The company intends to leverage the growth of the Chinese middle class and rising interest in investing. Within China's securities markets, individual retail investors account for roughly 80% to 85% of trading, according to sources such as *The Economist* and CNBC. In fact, *The Economist* believes the 2014 year-end rally was driven primarily by individuals. China's middle class has shown a growing appetite for investing, we believe. CNBC cites data from the China Securities Depository and Clearing Corp. that indicates that China opened more than 30 million new trading accounts in the first five months of 2015, while trading volume on the Shanghai and Shenzhen markets during that period nearly equaled the trading volume registered throughout all of 2014.

Qualified Domestic Individual Investor Program

The company expects interest from Chinese investors in U.S. equities to expand, as China's middle class continues to grow. McKinsey estimates that the upper middle class in China will increase 22.4% from 2012-22. McKinsey defines this group as people with $16,000 to $34,000.

China has imposed fairly rigid regulatory restrictions on individuals investing abroad. However, recent moves by the government could portend some liberalization of these restrictions. For instance, in March, 2012, the government approved certain financial reforms in the city of Wenzhou that included, among other things, allowing private citizens to invest up to $3 million directly in offshore instruments.

More recently, trade publications have reported that China intends to introduce a new program to allow individuals in six cities to invest abroad directly. This program, QDII2 or the Qualified Domestic Individual Investor program is slated to launch in Shanghai, Tianjin, Chongqing, Wuhan, Shenzhen and Wenzhou. It will enable individuals with at least one million yuan ($160,000) to invest directly in foreign assets, including shares listed on securities exchanges in New York, London and Paris. A $50,000 ceiling on exchanging yuan for foreign currency that was imposed in 2007 apparently will not apply on QDII2 transactions, according to trade publications. An earlier QDII program allowed investors to purchase foreign stocks through funds.

Other steps by China to relax restrictions on investing abroad include the Shanghai- Hong Kong Stock Connect program, which China introduced in November 2014. It gave China's investors the opportunity to acquire stocks listed in Hong Kong, allowing investors residing in China to buy shares in certain Hong Kong and Chinese companies listed on the Hong Kong exchange. It also enables foreigners to purchase Shanghai listed Chinese A shares more easily. We believe at this point, the program has not met initial expectations.

RECENT NEWS

On October 16, 2015, ChineseInvestors.com reported results for the quarter ending August 31, 2015.

On Aug 24, the company announced that Phoenix North America would feature featuring The Stock Market Report from Chineseinvestors.com on its *America Express News* program.

The company also announced its second Smart Money seminar in August of 2015.

RISKS

- CIIX is under-capitalized and will likely need to seek additional short-term funding until it reaches a certain revenue level, which could dilute existing shareholders.
- One of the biggest risks to CIIX, we believe, is that its strategy to drive traffic and subscriber growth fails to materialize in the near-term.
- We believe CIIX could face competitive risk if a better capitalized company decides to launch a portal that provides services that are similar to those that CIIX provides.
- We believe CIIX faces investment risk if its investment portfolio depreciates in value. While the company can continue to hold shares if it expects an upward revaluation, there is the risk that the shares remain under pressure and CIIX either continues to write down their value or at some point to sell and realize a loss.
- The level of investment interest in the financial markets by Chinese individuals could stall or diminish, in turn impacting the company's ability to sell subscriptions.

PROJECTED INCOME STATEMENT & BALANCE SHEET

Chineseinvestors.com, Inc. Income Statement and Projections ($)

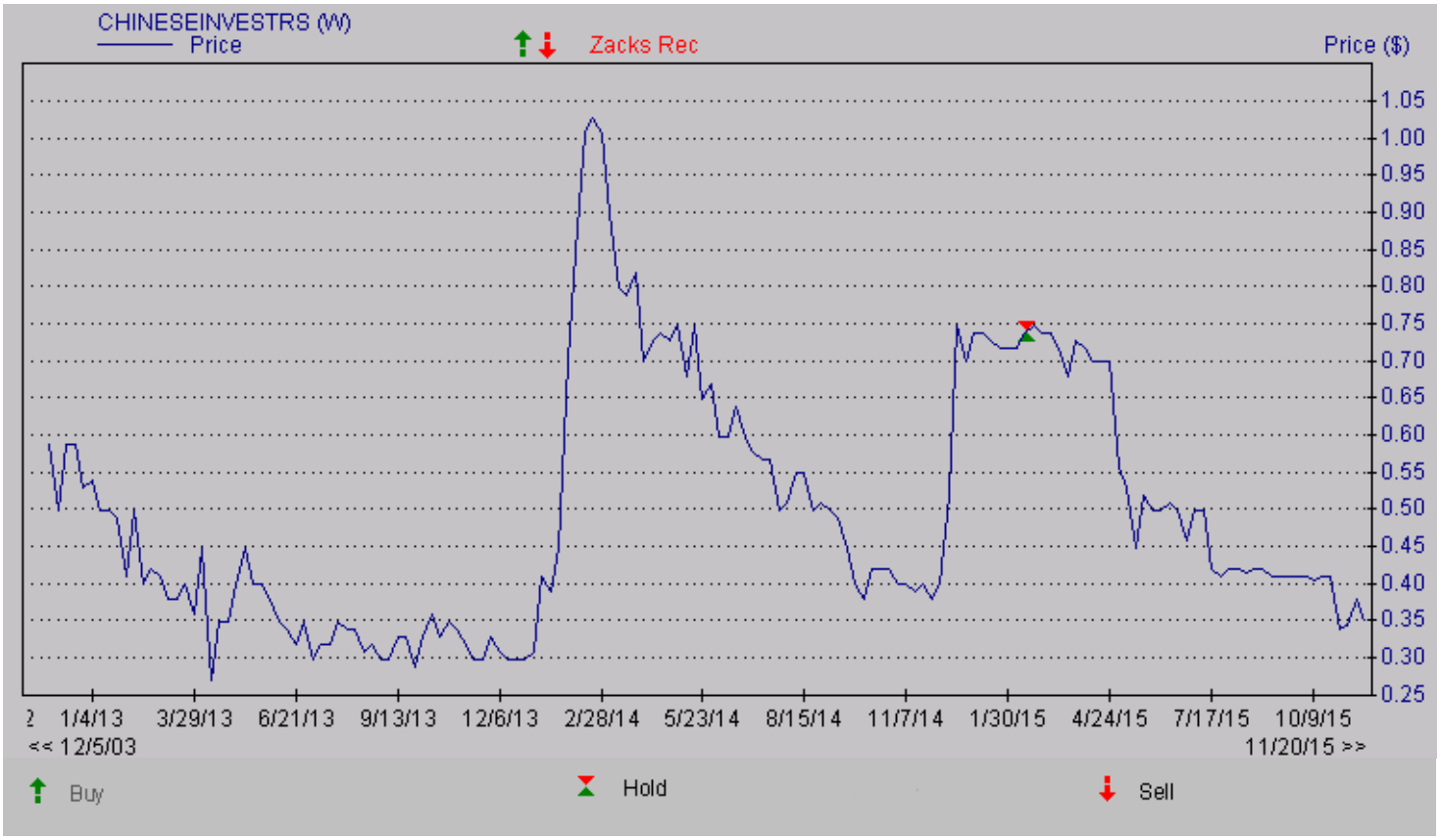
	Aug-14 1Q15	Nov-14 2Q15	Feb-15 3Q15A	May-15 4Q15A	FY15A	Aug-15 1Q16A	Nov-15 2Q16E	Feb-16 3Q16AE	May-16 4Q16E	FY16E
Binary Option Services	-	-			-					
Investor relations	480,372	339,840	596,190	422,148	1,838,550	51,783	169,920	298,095	211,074	730,872
Subscription	163,357	178,251	178,158	70,331	590,097	101,921	142,601	142,526	56,265	443,313
Other	1,058	1,315	5,477	5,175	13,025	12,624	5,260	4,382	4,140	26,406
Total revenue	$644,787	$519,406	$779,825	$497,654	2,441,672	166,328	317,781	445,003	271,479	1,200,591
Cost of services	221,826	205,806	290,952	292,765	1,011,349	246,244	251,169	256,192	261,316	1,014,921
Gross profit	$422,961	$313,600	$488,873	$204,889	$1,430,323	($79,916)	$66,612	$188,811	$10,163	$185,669
G&A	380,585	334,116	350,246	523,936	1,588,883	515,406	525,714	536,228	546,953	2,124,301
Advertising	59,125	79,351	125,069	95,993	359,538	106,378	108,506	110,676	112,889	438,448
Total op'g expenses	439,710	413,467	475,315	619,929	1,948,421	621,784	634,220	646,904	659,842	2,562,750
Operating profit/(loss)	($16,749)	($99,867)	$13,558	($415,040)	($518,098)	($701,700)	($567,608)	($458,093)	($649,679)	($2,377,081)
Other Income						4,165	4,000	4,000	4,000	16,165
Debt Forgiveness				99,702	99,702					-
Interest expense	(6,452)	(8,153)	(18,109)	(26,602)	(59,316)					-
Dividend preferred stock				(1,475,700)	(1,475,700)	(49,000)	(49,000)	(49,000)	(49,000)	(196,000)
Realized (loss)/gain securiti	(91,807)	29,265	(444,014)	(1,377,548)	(1,884,104)	(2,267)	(2,000)	(2,000)	(2,000)	(8,267)
Net to common shareholder:	($115,008)	($78,755)	($448,565)	($3,195,188)	($3,837,516)	($748,802)	($614,608)	($505,093)	($696,679)	($2,565,183)
LPS	($0.02)	($0.01)	($0.06)	($0.42)	($0.51)	($0.08)	($0.06)	($0.05)	($0.07)	($0.26)
Avg. shares out (FD)	7,249,305	7,240,835	7,249,305	7,363,483	7,477,661	9,719,590	9,720,090	9,720,590	9,721,090	38,881,360
Unrealized gain/(loss) on securities					823,615	(99,973)	(90,000)	(90,000)	(90,000)	(369,973)
Comprehensive income					(3,013,901)	(848,775)	(704,608)	(595,093)	(786,679)	(2,935,156)
LPS					($0.40)	($0.11)	($0.09)	($0.08)	($0.10)	($0.38)

Chineseinvestors.com, Inc. Balance Sheet ($)

	Nov-13	Feb-14	May-14	Aug-14	Nov-14	Feb-15	May-15	Aug-15
Cash & equivalents	$111,643	$511,242	$429,199	$152,317	$245,047	$687,649	$498,189	$261,995
Accounts receivable	17,141	3,344	17,422	4,297	9,969	1,774	101,918	100,080
Note receivable - affiliate		-	17,648	-	-		-	
Investments available for sale	1,404,604	2,686,733	2,331,139	2,817,194	1,321,008	746,822	301,491	210,940
Inv available for sale affiliate							1,148,000	1,148,000
Prepaid taxes		-	58,963	64,044	64,044	64,044	33,165	33,165
Other	49,856	19,381	26,404	27,839	24,767	33,041	91,634	80,899
Total current assets	1,583,244	3,220,700	2,880,775	3,065,691	1,664,835	1,533,330	2,174,397	1,835,079
Property and equipment	24,153	19,868	22,960	20,216	15,832	14,247	9,783	12,978
Website development	68,441	69,198	94,278	105,198	106,983	110,868	79,644	80,612
Total non-current assets	92,594	89,066	117,238	125,414	122,815	125,115	89,427	93,590
Total assets	**$1,675,838**	**$3,309,766**	**$2,998,013**	**$3,191,105**	**$1,787,650**	**$1,658,445**	**$2,263,824**	**$1,928,669**
Accounts payable	11,111	7,223	53,986	52,574	60,183	34,004	22,811	59,487
Accounts payable due in stock		-	99,702	99,702	99,702	99,702	114,800	114,800
Accrued liabilities	68,542	77,479	78,545	77,138	44,946	109,100	65,844	10,053
Accrued dividend							34,947	28,659
Accrued interest	74,902	62,872	11,068	19,310	27,462	9,711		
Deferred revenue	303,546	371,219	342,742	308,155	265,252	203,028	206,565	163,917
Unearned revenue paid in cash		-	120,208	40,656	79,483	32,776		
Unearned revenue paid in stock	387,625	466,351	545,491	686,264	817,496	278,804	173,611	152,778
Unearned Rental Income								30,000
Short-term debt	460,000	440,000	440,000	440,000	440,000	-		
Commissions payable due in stock		99,702	-	-	-	-	-	-
Total current liabilities	1,305,726	1,524,846	1,691,742	1,723,799	1,834,524	767,125	618,578	559,694
Long-term deferred revenue	24,235	42,791	80,777	69,311	68,167	53,438	48,767	42,827
Total liabilities	**1,329,961**	**1,567,637**	**1,772,519**	**1,793,110**	**1,902,691**	**820,563**	**667,345**	**602,521**
Shareholders' equity /(deficit)	345,877	1,742,129	1,225,494	1,397,995	(115,041)	837,883	1,596,479	1,326,149
Liabs & stockholders' equity	**$1,675,838**	**$3,309,766**	**$2,998,013**	**$3,191,105**	**$1,787,650**	**$1,658,445**	**$2,263,824**	**$1,928,669**

Source: Company reports, Zacks

HISTORICAL ZACKS RECOMMENDATIONS



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