



Hong Kong Jewellery Holding Limited

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

2015
Interim Report

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

GEM has been positioned as a market designed to accommodate companies to which a higher 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 GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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

INTERIM RESULTS ENDED 30 JUNE 2015

The Directors of the Company present the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months and six months ended 30 June 2015 ("Financial Statements"), together with the comparative figures for the corresponding periods in 2014, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2015

	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
Revenue	3	39,113	117,244	97,397	179,030
Other income		5,058	1,127	6,177	2,272
Change in inventories		25,048	(47,749)	23,331	37,127
Purchase of goods		(30,140)	(20,031)	(43,851)	(126,326)
Professional fee		(4,749)	(6,095)	(8,110)	(10,857)
Employee benefits expenses		(32,759)	(39,550)	(72,488)	(77,241)
Depreciation and amortisation		(1,646)	(1,516)	(2,268)	(3,012)
Other expenses		(7,340)	(6,956)	(19,836)	(15,726)
Finance costs	6	(94)	(94)	(186)	(188)
Loss of control of a subsidiary	7	(258)	–	(258)	–
Share of post-tax result of an associate	12	(922)	–	(922)	–
Loss before income tax	5	(8,689)	(3,620)	(21,014)	(14,921)
Income tax expense	8	(112)	(155)	(126)	(182)
Loss for the period		(8,801)	(3,775)	(21,140)	(15,103)
Other comprehensive income for the period, net of tax					
Exchange gain on translation of financial statements of foreign operations		–	–	–	719
Total comprehensive loss for the period		(8,801)	(3,775)	(21,140)	(14,384)

	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 for the period attributable to:					
Owners of the Company		(7,999)	(3,754)	(18,824)	(13,506)
Non-controlling interests		(802)	(21)	(2,316)	(1,597)
		<u>(8,801)</u>	<u>(3,775)</u>	<u>(21,140)</u>	<u>(15,103)</u>
Total comprehensive loss attributable to:					
Owners of the Company		(7,999)	(3,754)	(18,824)	(12,834)
Non-controlling interests		(802)	(21)	(2,316)	(1,550)
		<u>(8,801)</u>	<u>(3,775)</u>	<u>(21,140)</u>	<u>(14,384)</u>
Loss per share for the loss attributable to the owners of the Company during the period – Basic and diluted (in HK cents)	10	<u>(0.67)</u>	<u>(0.32)</u>	<u>(1.58)</u>	<u>(1.14)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2015

		(Unaudited) 30 June 2015 HK\$'000	(Audited) 31 December 2014 HK\$'000
	Notes		
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	11	8,069	10,795
Available-for-sale financial assets		–	–
Goodwill		–	–
Development costs		–	–
Deferred tax assets		1,213	1,307
Interest in an associate	12	39,389	–
		48,671	12,102
Current assets			
Inventories		51,667	28,335
Amounts due from customers for contract work		44,355	44,440
Trade receivables	13	12,744	49,594
Other receivables, deposits and prepayments		24,498	26,586
Financial assets at fair value through profit or loss		–	26,945
Bank balances and cash		32,846	86,872
		166,110	262,772

		(Unaudited) 30 June 2015 HK\$'000	(Audited) 31 December 2014 HK\$'000
	Notes		
Current liabilities			
Trade payables	14	29,845	32,536
Other payables and accrued charges		26,192	58,117
Borrowings		4,780	3,964
Amounts due to customers for contract work		3,558	10,165
Amounts due to directors		7,754	5,355
Tax payables		–	945
		72,129	111,082
Net current assets		93,981	151,690
Total assets less current liabilities		142,652	163,792
Net assets		142,652	163,792
EQUITY			
Share capital	15	118,846	118,846
Reserves		21,511	40,335
Equity attributable to owners of the Company		140,357	159,181
Non-controlling interests		2,295	4,611
Total equity		142,652	163,792

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2015

	Equity attributable to owners of the Company					Non-controlling interests	Total equity
	Share capital	Share premium	Exchange reserve	Accumulated losses	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2015	118,846	220,438	6,418	(186,521)	159,181	4,611	163,792
Loss for the period	-	-	-	(18,824)	(18,824)	(2,316)	(21,140)
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	(18,824)	(18,824)	(2,316)	(21,140)
At 30 June 2015	118,846	220,438	6,418	(205,345)	140,357	2,295	142,652
At 1 January 2014	118,846	220,438	7,675	(159,502)	187,457	4,810	192,267
Loss for the period	-	-	-	(13,506)	(13,506)	(1,597)	(15,103)
Other comprehensive income							
Exchange gain on translation of financial statements of foreign operations	-	-	672	-	672	47	719
Total comprehensive income/(loss) for the period	-	-	672	(13,506)	(12,834)	(1,550)	(14,384)
At 30 June 2014	118,846	220,438	8,347	(173,008)	174,623	3,260	177,883

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2015

	(Unaudited)	
	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Cash flows from operating activities		
Loss before income tax	(21,014)	(14,921)
Adjustments:-		
– Loss on control of a subsidiary (Note 7)	258	–
– Share of post-tax result of an associate	922	–
– Other non-cash items and net changes in working capital	(11,939)	2,796
Net cash flows used in operating activities	(31,773)	(12,125)
Cash flows from investing activities		
Purchase of property, plant and equipment	(561)	(353)
Net cash outflow upon loss of control of a subsidiary (Note 7)	(22,508)	–
Net cash used in financing activities	(23,069)	(353)
Cash flows from financing activities		
Proceeds from other borrowings	816	5,006
Cash flows from financing activities	816	5,006
Net decrease in cash and cash equivalents	(54,026)	(7,472)
Cash and cash equivalents at the beginning of the period	86,872	71,355
Effect on exchange rate changes	–	206
Cash and cash equivalents at the end of the period	32,846	64,089

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2015

1. General Information

Hong Kong Jewellery Holding Limited (the “Company”) is incorporated in Bermuda as an exempted company with limited liability. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and, its principal place of business is Hong Kong. The Company’s shares are listed on the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. Its principal subsidiaries are engaged in the development, sale and implementation of enterprise software and the provision of systems integration, professional services and Application Service Provider (“ASP”) services, design and sales of gold and jewellery products and investment holding. The Group’s operations are based in Hong Kong and the People’s Republic of China (the “PRC”).

Key Event

On 27 May 2015, Excel Technology International (Hong Kong) Limited (“Excel HK”), a wholly owned subsidiary of the Company entered into an Subscription Agreement with a connected person (“the Subscriber”), that Excel HK agreed to allot and issue 1,000 new shares for a consideration equivalent to 80% of the unaudited net assets value of Excel HK as at 30 April 2015, and the Subscriber agreed to subscribe for the shares.

The Subscriber, Excel (BVI) Limited (“Excel BVI”), the immediate holding company of Excel HK, and Excel HK further entered into an shareholders’ agreement to regulate their respective rights in Excel HK, whereas, upon Completion on the same date of the Subscription Agreement, the Company and the Subscriber owned 50% of beneficial interest of Excel HK respectively.

On completion of the subscription, the Group considered that they did not have control over Excel HK. As such, Excel HK which had been carrying out parts of the businesses of the IT products and services segment, ceased to be a subsidiary of the Group and became an associate. Details of this deemed disposal is included in Note 7.

2. Basis of Preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules"). The accounting policies adopted by the Group are consistent with financial statements for the year ended 31 December 2014.

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

3. Revenue and Turnover

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

	Three months ended		Six months ended	
	30 June		30 June	
	2015	2014	2015	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales of gold and jewellery products	3,728	14,859	16,519	29,644
Enterprise software products	23,784	32,414	54,697	60,485
Systems integration	583	59,189	5,053	67,730
Professional services	11,018	9,835	21,128	19,294
ASP services	–	947	–	1,877
Total revenue	39,113	117,244	97,397	179,030

4. Segment Information

The executive directors, being the chief operating decision makers, have identified the Group's two products and service lines as operating segments. Each of these operating segments is managed separately as each of the product and service lines requires different resources as well as marketing approaches.

These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

	Six months ended 30 June 2015		
	Jewellery	IT Products	Total
	Products	and Services	
	HK\$'000	HK\$'000	HK\$'000
Revenue			
– From external customers	16,519	80,878	97,397
Reportable segment revenue	16,519	80,878	97,397
Reportable segment loss before income tax	(6,164)	(14,850)	(21,014)
Interest income	–	645	645
Depreciation	(1,075)	(1,193)	(2,268)
Fair value gain on financial assets at fair value through profit or loss	–	1,477	1,477
Finance costs	–	(186)	(186)
Loss of control of a subsidiary	–	(258)	(258)
Share of post-tax result of an associate	–	(922)	(922)
Reportable segment assets	299,702	140,032	439,734
Additions to non-current segment assets (other than financial instruments and deferred tax assets) during the period	–	561	561
Reportable segment liabilities	16,098	280,984	297,082

	Six months ended 30 June 2014		
	Jewellery Products HK\$'000	IT Products and Services HK\$'000	Total HK\$'000
Revenue			
– From external customers	29,644	149,386	179,030
Reportable segment revenue	29,644	149,386	179,030
Reportable segment loss before income tax	(8,931)	(5,990)	(14,921)
Interest income	9	756	765
Depreciation and amortisation of non-financial assets	(994)	(2,018)	(3,012)
Fair value loss on financial assets at fair value through profit or loss	–	(319)	(319)
Finance costs	–	(188)	(188)
Reportable segment assets	330,556	329,000	659,556
Additions to non-current segment assets (other than financial instruments and deferred tax assets) during the period	924	737	1,661
Reportable segment liabilities	34,535	447,138	481,673

The totals presented for the Group's operating segments reconcile to the Group's key financial figures as presented in the financial statements as follows:

	30 June 2015 HK\$'000	30 June 2014 HK\$'000
Reportable segment assets	439,734	659,556
Elimination of inter-segment receivables	(224,953)	(224,053)
Group assets	214,781	435,503
	30 June 2015 HK\$'000	30 June 2014 HK\$'000
Reportable segment liabilities	297,082	481,673
Elimination of inter-segment payables	(224,953)	(224,053)
Group liabilities	72,129	257,620

The Group's revenue from external customers and its non-current assets (other than financial instruments and deferred tax assets) are divided into the following geographical areas:

Place of domicile

	Revenue from external customers Six months ended		Non-current assets	
	30 June 2015 HK\$'000	2014 HK\$'000	30 June 2015 HK\$'000	2014 HK\$'000
Hong Kong	49,203	59,961	39,423	810
PRC and Taiwan	43,093	113,486	7,992	13,110
South East Asia	5,101	5,583	43	100
	97,397	179,030	47,458	14,020

5. Loss before income tax

Loss before income tax is arrived at after charging/(crediting):

	Three months ended		Six months ended	
	30 June		30 June	
	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000
Depreciation of property, plant and equipment	1,646	1,111	2,268	2,202
Amortisation of development cost	–	405	–	810
Interest income	(318)	(397)	(645)	(765)
Dividend income from listed equity securities	(207)	(296)	(507)	(543)
Fair value (gain)/loss on financial assets at fair value through profit or loss	(1,032)	(462)	(1,477)	319

6. Finance Costs

	Three months ended		Six months ended	
	30 June		30 June	
	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000
Interest charges on:				
Other interest expense, wholly repayable within five years	94	94	186	188
	94	94	186	188

7. Loss of control of a subsidiary

On 27 May 2015, Excel Technology International (Hong Kong) Limited ("Excel HK"), a wholly-owned subsidiary of the Company's subsidiary, Excel (BVI) Limited ("Excel BVI"), and a company wholly owned by Ms. Zee Chan Mei Chu Peggy, a director of Excel BVI and a connected person of the Company at the subsidiary level (the "Subscriber"), entered into a Subscription Agreement, pursuant to which Excel HK agreed to allot and issue 1,000 shares and the Subscriber agreed to subscribe the shares at a price subsequently adjusted to HK\$4,872,889 which represented 80% of the net asset value of Excel HK as at 30 April 2015 and was paid by the Subscriber in July 2015. Upon completion of the subscription on 27 May 2015, each of Excel BVI and the Subscriber owned 50% of the issued share capital of Excel HK. The Group considered that they did not have control over Excel HK after the subscription. As such, the subscription resulted in Excel HK ceasing to be a subsidiary of the Group, a loss on deemed disposal of 50% equity interest of Excel HK amounted to approximately HK\$258,000 was reported in the Group's Statement of Profit or Loss and Other Comprehensive Income. Excel HK became an associate of the Group after the subscription, and have since been accounted for in the consolidated financial statements for the period ended 30 June 2015 using the equity method. The fair value of the equity interest retained by the Group on the date when the control was lost is recognized as deemed cost of acquisition of interests in this associate.

- (i) **The major classes of assets and liabilities of Excel HK over which control was lost on deemed disposal as at the date of disposal are as follows:**

	HK\$'000
Non-current assets	1,110
Current assets	68,919
Current liabilities	(64,640)
Net asset disposed of	5,389

(ii) **Loss of control of a subsidiary**

	HK\$'000
Fair value of the equity interest retained in Excel HK	5,131
Net assets disposed of	(5,389)
Loss on deemed disposal	(258)

(iii) **Net cash outflow upon loss of control of a subsidiary**

	HK\$'000
Cash and cash equivalents disposed of	(22,508)

8. Income Tax Expense

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

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

	Three months ended 30 June		Six months ended 30 June	
	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000
Current tax				
– Overseas				
Tax for the period	112	155	126	182
Total income tax expense	112	155	126	182

9. Interim Dividend

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2015 (six months ended 30 June 2014: nil).

10. Loss Per Share

The calculation of the basic and diluted loss per share for the six months ended 30 June 2015 is based on the loss attributable to owners of the Company of HK\$18,824,000 (2014: HK\$13,506,000) and the weighted average number of ordinary shares of 1,188,460,000 (2014: 1,188,460,000) in issue during the period.

Diluted loss per share for the six months ended 30 June 2015 and 2014 equates the basic loss per share as there is no potential dilutive ordinary share in existence during the period.

11. Property, Plant And Equipment

During the six months ended 30 June 2015, the Group spent HK\$561,000 (six months ended 30 June 2014: HK\$1,661,000) on acquisition of property, plant and equipment. The loss of control of a subsidiary resulted in a disposal of HK\$1,017,000 in net book value during the six months ended 30 June 2015.

12. Interest in an associate

On 27 May 2015, the Group's interest in Excel HK was reduced from 100% to 50% by a deemed disposal (Note 7). According to the shareholders' agreement of the same date, the Group had lost control of Excel HK, which resulted in the Group's interest in Excel HK is reclassified as interest in an associate.

	30 June 2015 HK\$'000	31 December 2014 HK\$'000
Fair values of equity interest retained in Excel HK (<i>Note 7</i>)	5,131	—
Share of post-tax result of Excel HK for the period	(922)	—
Share of net assets	4,209	—
Amount due from Excel HK	35,180	—
	39,389	—

13. Trade Receivables

	30 June 2015 HK\$'000	31 December 2014 HK\$'000
Trade receivables		
From third parties	12,914	47,171
From a related party	—	2,610
	12,914	49,781
Less: provision for impairment of trade receivables	(170)	(187)
	12,744	49,594

Trade receivables from third parties for IT products and services are due within 14 days to 60 days from the date of billing. Trade receivable from a related party is repayable on demand. Debtors with balances that are more than 90 days overdue are requested to settle all outstanding balances before any further credit is granted.

The Group's sales of gold and jewellery products comprised mainly cash sales and credit card sales to retail customers and credit sales to franchisees with 0 – 60 days credit terms.

The directors of the Group considered that the fair values of trade receivables are not materially different from their carrying amounts because these balances have short maturity periods at their inception. All trade receivables are expected to be recovered within one year.

Based on the invoice dates, the ageing analysis of the trade receivables was as follows:

	30 June 2015 HK\$'000	31 December 2014 HK\$'000
0 – 30 days	2,058	35,130
31 – 60 days	684	7,983
61 – 90 days	994	564
Over 90 days	9,008	5,917
	12,744	49,594

14. Trade Payables

The Group was granted by its third parties suppliers credit periods ranging from 30 – 60 days. Trade payable from a related party is repayable on demand. Based on the invoice dates, the ageing analysis of the trade payables were as follows:

	30 June 2015 HK\$'000	31 December 2014 HK\$'000
0 – 30 days	6,302	1,381
31 – 60 days	136	200
61 – 90 days	222	–
Over 90 days	23,185	30,955
	29,845	32,536



All amounts are short term and hence the carrying values of trade payables are considered to be a reasonable approximation of its fair value.

15. Share Capital

	30 June 2015 & 31 December 2014	
	Number of shares	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.10 each	5,000,000,000	500,000
Issued and fully paid:		
Ordinary shares of HK\$0.10 each	1,188,460,000	118,846

16. Connected and Related Party Transactions

During the period, the Group had the following material transactions with connected and/or related parties:

Connected and/or related parties	Nature of transactions	Six months ended 30 June	
		2015 HK\$'000	2014 HK\$'000
Companies in which directors of the Company have interests			
– Hangzhou Baidi Jewellery Company Limited* ("Baidi Jewellery") (notes a, d)	Sales of gold and jewellery products	32	134
– Shenzhen City Zhong Chuang Union Investment Company Limited* ("Zhong Chuang") (notes b, d)	Sales of gold and jewellery products	1,770	29
– Shenzhen Didi Jewellery Packaging Company Limited* ("Didi Packaging") (notes a, d)	Purchase of packaging materials for the brand  H.K. JEWELRY	37	582
– Hangzhou Didi Commercial Showcases Company Limited* ("Didi Showcases") (notes a, d)	Purchase of showcases for the brand  H.K. JEWELRY	271	519
– Excel Technology International (Hong Kong) Limited ("Excel HK") (notes d, c)	Professional fee received	2,529	–
	Professional fee paid	861	–
	Administration expenses reimbursements (Net paid)	50	–
A non-controlling interest of a subsidiary	Purchase of complementary hardware and software	–	6,416

Notes:

- (a) Baidi Jewellery, Didi Packaging and Didi Showcases are owned as to 90%, 100% and 80% respectively by Hangzhou Didi Investment Joint Stock Company Limited* (杭州迪迪投資股份有限公司), which in turn is owned as to 10% and 90% by Mr. Lin Di and his father, respectively.
- (b) Zhong Chuang is owned as to 81% by the brother of Ms. Li Xia.
- (c) Excel HK has become an associate since 27 May 2015 and is ultimately 50% owned by Ms. Zee Chan Mei Chu, Peggy, a director of the company.
- (d) The above related party transactions also constitute continuing connected transactions as defined in Chapter 20 of the GEM Listing Rules. The disclosures required by Chapter 20 of the GEM Listing Rules are provided in the Directors' Report.

Sales to or purchases from the connected and/or related parties stated above were conducted in the Group's normal course of business and at mutually agreed prices and terms.

* *The English names of the PRC companies are translation of their respective Chinese names included for information only and are not their official names.*

During the period, the Group had the following material outstanding balances with connected and/or related parties:

	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Non-controlling interests of a subsidiary		
Trade receivables	—	—
Trade payables	—	(1,098)
Companies controlled by controlling shareholders		
Trade receivables	—	1,078
Other payables	—	(4,373)
Prepayments	154	154
Companies controlled by a non-controlling shareholder of a subsidiary		
Borrowings	(630)	(57,114)

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group's loss attributable to owners of the Company for the six months ended 30 June 2015 was HK\$18,824,000, comparing with a loss of HK\$13,506,000 in the same period of 2014.

During the six months ended 30 June 2015, the Group recorded a turnover of HK\$97,397,000, representing a decrease of 45% compared with a turnover of HK\$179,030,000 in the same period of last year.

The sales of gold and jewellery products decreased by 44% to HK\$16,519,000 (2014: HK\$29,644,000). On the IT side of the business, sales of enterprise software products decreased by 10% to HK\$54,697,000 (2014: HK\$60,485,000), while systems integration business dropped by 93% to HK\$5,053,000 (2014: HK\$67,730,000) following the business strategy that minimizes the scale of hardware resales with low profit margin. Professional service business reported a growth of 10% to HK\$21,128,000 (2014: HK\$19,294,000).

The IT Products and Services segment of the Group was continuously bothered by the rising staff cost in China due to intensive market competition. The management would stick to the human resources strategies of hiring fresh university graduates and enhancing their productivity by proper trainings. It is believed that cost savings would become more observable in medium to long term.

During the period, the Group disposed its controlling interest in a loss-making wholly-owned subsidiary in the IT products and services segment. The Directors believed that this would help the Group to maintain its competitiveness and enable potential turnaround of the business segment while lowering the working capital required on the part of the Group for the business operations.

Liquidity and Financial Resources

As of 30 June 2015, the Group was in a financial position with cash and cash equivalents of HK\$32,846,000 (31 December 2014: HK\$86,872,000). The significant decrease was mainly resulted by the exclusion of the subsidiary which became an associate during the period.

The Group monitors its capital structure using the gearing ratio which is net debt divided by total equity. For this purpose, the Group defines net debt as debt, which comprises long-term and short-term borrowings, less cash and cash equivalents. Total equity comprises equity attributable to owners of the Company and non-controlling interests stated in the consolidated statement of financial position. As of 30 June 2015 and 31 December 2014, cash and cash equivalents exceeded debt, therefore the gearing ratio of the Group was zero.

Capital Structure

The Group's outstanding issued shares were 1,188,460,000 shares as at 30 June 2015.

Segmental Performances

For the six months ended 30 June 2015, the Jewellery Products business's turnover was HK\$16,519,000, decreased by 44% compared with the same period of last year (2014: HK\$29,644,000). The IT Products and Services business's turnover was HK\$80,878,000, decreased by 46% compared with the same period of last year (2014: HK\$149,386,000).

Employees

The total number of employees as of 30 June 2015 was 379 (Beginning of 2015: 574). The significant decrease was mainly resulted by the exclusion of a subsidiary due to loss of control during the period.

Outlook for the Second Half of 2015

The management continues to hold a cautiously optimistic view towards the IT Products and Services segment. Competition for professional IT talents will remain intense, and remains a challenge for the management to effectively control operating costs in the foreseeable future.

The Group will continue to vigorously promote the development strategy of **HHK**. JEWELRY. While strengthening our competitive edges and increasing our market share in the jewellery industry, efforts will be made to reduce our reliance on the IT Products and Services segment. With effective internal management and our usual good practice, the management will further optimize the existing business structure, while aggressively seeking new opportunities for business development and investment.

Transactions during the Period

Discloseable Transaction and Exempted Connected Transaction – Deemed Disposal Relating to subscription of Shares of a Subsidiary and Shareholders’ Agreement

Unless otherwise stated, capitalized terms used in this section “Transactions during the Period” shall have the same meanings as used in the Company’s announcement dated 27 May 2015.

On 27 May 2015, Excel Technology International (Hong Kong) Limited (志鴻科技國際(香港)有限公司) (“**Excel HK**”) (a wholly-owned subsidiary of the Company prior to completion of the subscription (“**Completion**”) under the Subscription Agreement (as defined hereinafter)) and the Passion Investment (BVI) Limited (the “**Subscriber**”) entered into a subscription agreement (the “**Subscription Agreement**”), pursuant to which Excel HK agreed to allot and issue 1,000 new shares of Excel HK (the “**Subscription Shares**” and each a “**Subscription Share**”) at the aggregate subscription price of approximately HK\$9,359,456 (which was determined after arm’s length negotiation among the parties and represented a discount of approximately 20% to the audited net asset value of Excel HK as at 31 December 2014 of approximately HK\$11,699,320), and the Subscriber agreed to subscribe for such Subscription Shares. Within 30 Business Days following the Completion, the Completion Accounts should be provided to the Subscriber by Excel HK. In the event that there was a shortfall in or an excess of the net asset value from the Completion Accounts as compared to the audited net asset value of Excel HK as at 31 December 2014, the aggregate Subscription Price should then be adjusted to the amount of 80% of the net asset value of Excel HK as at 30 April 2015 on dollar-to-dollar basis. On 30 June 2015, the Completion Accounts were provided to the Subscriber by Excel HK. According to the Completion Accounts, the net asset value of Excel HK as at 30 April 2015 was HK\$6,091,111, representing a shortfall of HK\$5,608,209 in the net asset value as compared to the audited net asset value as at 31 December 2014. As such, with effect from 30 June 2015, the aggregate Subscription Price was adjusted from HK\$9,359,456 to HK\$4,872,889, being the amount of 80% of the net asset value of Excel HK as at 30 April 2015, which was paid by the Subscriber on 15 July 2015. Upon Completion, each of Excel (BVI) Limited (a direct wholly owned subsidiary of the Company) (“**Excel BVI**”) and the Subscriber owned 50% of the issued share capital of Excel HK.

On Completion, the Subscriber, Excel BVI and Excel HK entered into a shareholders' agreement to regulate their respective rights in Excel HK (the **"Shareholders' Agreement"**).

Major terms of the Shareholders' Agreement include:

- (i) Directors and board meetings: pursuant to the terms of the Shareholders' Agreement, Excel BVI shall appoint a maximum of two board members and the Subscriber shall appoint a maximum of two board members and one chairman to the board of directors of Excel HK, both parties shall have the right to withdraw their appointments.
- (ii) Management: the board of directors of Excel HK shall be responsible for overseeing all of Excel HK's business operations and decision-making pursuant to the terms of the Shareholders' Agreement.
- (iii) Dividend: any approval, declaration and distribution of dividend of Excel HK will be made by the Excel HK Board.
- (iv) Transfer of shares: each of the shareholders of Excel HK may not sell directly or indirectly, transfer, pledge or dispose of any of its shares to any person without the prior written consent of the Subscriber.

Following Completion, the equity interest of Excel BVI and hence that of the Company in Excel HK was diluted from 100% to 50%, the Subscription therefore constitutes a deemed disposal of the Group's equity interest in Excel HK under Rule 19.29 of the GEM Listing Rules.

As the relevant applicable percentage ratios for the Subscription as a deemed disposal are more than 5% but less than 25%, the Subscription constitutes a discloseable transaction for the Company under Chapter 19 of the GEM Listing Rules and was subject to the reporting and announcement requirements.

As the Subscriber is owned by Ms. Zee Chan Mei Chu, Peggy, the ultimate beneficial owner of the Subscriber and the director of subsidiaries of the Company, who has been the director of subsidiaries of the Company in the last 12 months before the date of the Subscription Agreement and thus, the Subscriber is a connected person of the Company at the subsidiary level. Therefore, the Subscription constitutes a connected transaction of the Company under Chapter 20 of the GEM Listing Rules.

By virtue of Rule 20.99 of the GEM Listing Rules, as (i) the Subscriber is a connected person of the Company at the subsidiary level; (ii) the Board has approved the Subscription; and (iii) the independent non-executive Directors have confirmed that the terms of the Subscription are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole, the Subscription is subject to the reporting and announcement requirements but is exempt from the circular, independent financial advice and shareholders' approval requirements.

Please refer to the Company's announcements dated 27 May 2015 and 15 July 2015 for further details of the Subscription Agreement and Shareholders' Agreement.

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

At 30 June 2015, the interests and short positions of the directors and the chief executives of the Company and their associates in the shares, underlying shares or debentures of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Rule 5.46 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), were as follows:

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

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

Notes:

- (1) These shares were held by Sino Eminent Limited, a company incorporated in the British Virgin Islands, and is owned as to 25% by Ocean Expert Investments Limited and 75% by 深圳市藝華珠寶首飾股份有限公司 (Shenzhen Yihua Jewelry Co., Ltd), a company incorporated in the PRC which is held as to 80% by Mr. Zhuang Ruping. Accordingly, Mr. Zhuang Ruping is deemed to be interested in 312,606,140 shares held by Sino Eminent Limited by virtue of Sino Eminent Limited being controlled by Mr. Zhuang Ruping through his shareholding in 深圳市藝華珠寶首飾股份有限公司 (Shenzhen Yihua Jewelry Co., Ltd). Ocean Expert Investments Limited is a limited company incorporated in the British Virgin Islands which is wholly owned by Ms. Li Xia. Ms. Li Xia is deemed to be interested in 312,606,140 shares held by Sino Eminent Limited by virtue of Sino Eminent Limited being controlled by Ms. Li Xia through her shareholding in Ocean Expert Investments Limited and through her acting as the sole director of Sino Eminent Limited.
- (2) These shares were held by Confluence Holdings Limited, a company incorporated in the British Virgin Islands which is wholly-owned by Mr. Lin Di.
- (3) These shares were held by Flourish Zone Limited, a company incorporated in the British Virgin Islands which is wholly-owned by Mr. Chen Yin.

Save as disclosed above, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 30 June 2015.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2015, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

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

Name of shareholder	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Sino Eminent Limited (<i>Note 1</i>)	312,606,140	26.30%
深圳市藝華珠寶首飾股份有限公司 (Shenzhen Yihua Jewelry Co., Ltd) (<i>Note 1</i>)	312,606,140	26.30%
Ocean Expert Investments Limited (<i>Note 1</i>)	312,606,140	26.30%
Ms. LI Xia (<i>Note 1</i>)	312,606,140	26.30%
Mr. ZHUANG Ruping (<i>Note 1</i>)	312,606,140	26.30%
Confluence Holdings Limited (<i>Note 2</i>)	91,034,166	7.65%
Mr. LIN Di (<i>Note 2</i>)	91,034,166	7.65%
CK Hutchison Holdings Limited (<i>Note 3</i>)	143,233,151	12.05%
Flourish Zone Limited (<i>Note 4</i>)	110,303,827	9.28%
Mr. CHEN Yin (<i>Note 4</i>)	110,303,827	9.28%
Alps Mountain Agent Limited (<i>Note 3</i>)	71,969,151	6.06%
iBusiness Corporation Limited (<i>Note 3</i>)	67,264,000	5.66%

Notes:

- (1) These shares have been disclosed as Directors' interests held by controlled corporation in the paragraph headed "Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company".

- (2) Confluence Holdings Limited is a company incorporated in the British Virgin Islands and wholly-owned by Mr. Lin Di. Accordingly, Mr. Lin Di is deemed to be interested in the 91,034,166 shares interested by Confluence Holdings Limited.
- (3) CK Hutchison Holdings Limited (“CK Hutchison”) is entitled to exercise or control the exercise of one-third or more of the voting power at the general meetings of Alps Mountain Agent Limited (“Alps”) and iBusiness Corporation Limited (“iBusiness”). Accordingly, CK Hutchison is deemed to be interested in 143,233,151 shares of the Company of which 71,969,151 shares are held by Alps and 67,264,000 shares are held by iBusiness under the SFO.
- (4) Flourish Zone Limited is a company incorporated in the British Virgin Islands and wholly-owned by Mr. Chen Yin. Accordingly, Mr. Chen Yin is deemed to be interested in the 110,303,827 shares interested by Flourish Zone Limited.

Save as disclosed above, the Company has not been notified of any other interests or short positions in the issued share capital of the Company at 30 June 2015.

CODE ON CORPORATE GOVERNANCE PRACTICE

The Company is committed to the establishment of good corporate governance practices and procedures. The Directors believe that sound and reasonable corporate governance practices are essential for the growth of the Company and for safeguarding the shareholders’ interests and the Company’s assets.

The Company’s code of corporate governance practices was adopted with reference to the code provisions of the Code on Corporate Governance Practices (“CG Code”) and Corporate Governance Report (“CG Report”) contained in Appendix 15 of the GEM Listing Rules. There is no deviation from the Code Provisions in the CG Code as at 30 June 2015.

AUDIT COMMITTEE

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

The unaudited consolidated results of the Group for the six months ended 30 June 2015 have been reviewed by the audit committee, who is of the opinion that such statements comply with the applicable accounting standards and that adequate disclosures have been made.

REMUNERATION COMMITTEE

The remuneration committee was established on 10 May 2005.

The Company adopted that a remuneration committee be established with specific written terms of reference which deal clearly with its authority and duties. The terms of reference will follow the requirement of Code Provisions B.1.2.

The remuneration committee is currently comprised of Mr. Lam Tin Faat and Ms. Na Xin, both are Independent Non-executive Directors, and Ms. Li Xia who is Executive Director. Mr. Lam Tin Faat is the Chairman of the remuneration committee.

NOMINATION COMMITTEE

The nomination committee was established on 21 March 2012.

The Company adopted that a nomination committee be established with specific written terms of reference which deal clearly with its authority and duties. The terms of reference will follow the requirement of Code Provisions A.5.2.

The nomination committee is currently comprised of Mr. Lam Tin Faat and Ms. Na Xin, both are Independent Non-executive Directors, and Ms. Li Xia who is Executive Director. Mr. Lam Tin Faat is the Chairman of the nomination committee.

COMPLIANCE OF CODE FOR DIRECTORS' SECURITIES TRANSACTION

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, all directors of the Company have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company throughout the six months ended 30 June 2015.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

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

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

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

Hong Kong, 11 August 2015

As at the date of this report, the Board comprises of:

Li Xia (*Executive Director*)

Lin Di (*Executive Director*)

Chen Yin (*Executive Director*)

Lam Tin Faat (*Independent Non-executive Director*)

Lu Haina (*Independent Non-executive Director*)

Na Xin (*Independent Non-executive Director*)