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香港資源控股
**HONG KONG
RESOURCES
HOLDINGS**
(Stock Code : 2882)

interim
report
2011/12

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HKRH IS POISED TO TAKE ADVANTAGE OF

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EXCELLENT OPPORTUNITIES AHEAD

MISSION

Hong Kong Resources Holdings Company Limited aims at growing into a jewellery retailer of scale, and at developing brands with international recognition in Greater China, East Asia and beyond.

We continue to seek products of precious metals and stones; distribution channels, both brick-and-mortar and e-commerce; as well as partners with strategic fit for franchising or alliance.



DIRECTORS

Executive Directors

Dr. Wong, Kennedy Ying Ho^{b,c}, BBS, J.P., *Chairman*

Mr. Chui Chuen Shun^b

Dr. Hui Ho Ming, Herbert^d, J.P.

Mr. Mung Kin Keung^d

Dr. Liu Wangzhi

Mr. Lam Kwok Hing, Wilfred^d, J.P.

(appointed on 17 August 2011)

Ms. Wong Wing Yan, Ella

(appointed on 17 August 2011)

Non-executive Director

Mr. Kung Ho^c

Independent Non-executive Directors

Mr. Fan, Anthony Ren Da^{a,b,c}

Ms. Estella Yi Kum Ng^{a,b,c,d}

Mr. Wong Kam Wing^{a,b,c}

^a *Member of the Audit Committee*

^b *Member of the Remuneration Committee*

^c *Member of the Nomination Committee*

^d *Member of the Corporate Governance Committee*

COMPANY SECRETARY

Mr. Michael Sui Wah Wong

AUDITORS

Deloitte Touche Tohmatsu

Certified Public Accountants

REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton, HM11

Bermuda

PRINCIPAL OFFICE IN HONG KONG

Rooms 1402-03, 14th Floor

Admiralty Centre, Tower 2

18 Harcourt Road

Hong Kong

PRINCIPAL BANKERS

Shanghai Commercial Bank Limited

China Construction Bank Corporation

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Bermuda) Limited

Rosebank Centre

11 Bermudian Road

Pembroke HM08, Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited

26th Floor, Tesbury Centre

28 Queen's Road East

Wanchai, Hong Kong

STOCK CODE

2882

WEBSITE

www.hkrh.hk

The board of directors (the “**Board**”) of Hong Kong Resources Holdings Company Limited (the “**Company**”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 31 December 2011 (the “**Period**”).

OVERVIEW

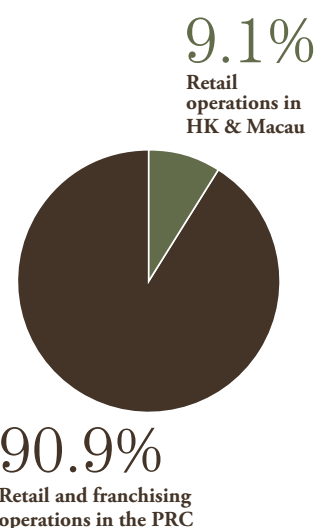
The Group is engaged in retailing, through self-operated points of sale as well as franchising of gold and jewellery products in Hong Kong, Macau and other regions (“**Mainland China**”) in the People’s Republic of China (the “**PRC**”).

The Group recorded a turnover of HK\$2,076 million for the Period, representing an increase of 78% as compared to the turnover of HK\$1,166 million last year. Profit from operations of HK\$79 million for the Period increased 114% as compared to HK\$ 37 million last year.

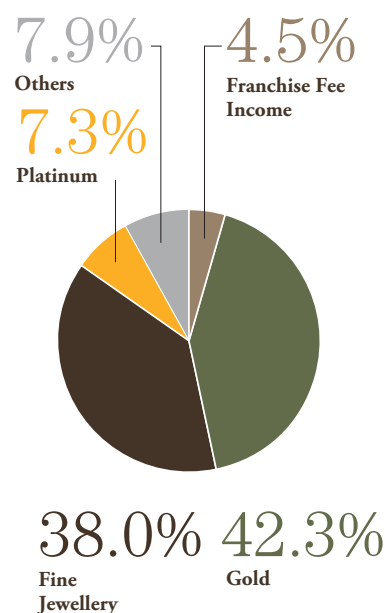
The Group recorded a significant growth throughout the Period as a result of the expansion in our points-of-sale network in Mainland China and our investment in brand development. During the Period, 76 new shops and counters were opened in Hong Kong, Macau and Mainland China. The Hong Kong and Macau markets have recorded same-store-growth of 29% whereas that in the Mainland China was 25%.

The profit for the Period attributable to owners of the Company amounted to HK\$22 million (2010: HK\$9 million), after deducting finance costs, fair value changes in financial instruments, gold loans and financial assets at fair value through profit or loss, as well as shares of results of associates and jointly controlled entities. During the Period, management focused on cost control particularly in cutting administrative expenses, which contributed to improving the results of the Group.

Turnover Breakdown by Business



Gross Profit Analysis by Products



INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend in respect of the six months ended 31 December 2011 to both the holders of ordinary shares and preference shares of the Company.

BUSINESS REVIEW AND PROSPECTS

Retail Operations

The Group's five-year strategic plan has continued on track, in line with the expansion plan for Mainland China. Turnover from the Hong Kong and Macau retail operations amounted to HK\$189 million, while that from the Mainland China operation reached HK\$1,887 million.

During the Period, 76 new shops and counters opened in Hong Kong, Macau and Mainland China. As at 31 December 2011, the Group's point-of-sale ("POS") network consisted of: 9 in Hong Kong, 2 in Macau and 369 in Mainland China under the brandname "3D-GOLD", as well as 2 in Hong Kong and 17 in Mainland China under the brandname "La Milky Way". Of the POS network in Mainland China, 153 were self-operated and 233 were franchisee-operated.

The Group has tapped into the fast developing second-tier and third-tier cities in various parts of Mainland China. Our growth plans will be continually adjusted to optimise financial returns, marketing benefits and strategic advantages. The Mainland China market will remain the key growth driver in the future.

For the Period, the turnover from our wholesale business with franchises increased by 96% to HK\$987 million (2010: HK\$504 million), representing 48% (2010: 43%) of total turnover. This increase primarily resulted from net addition of 56 franchises points-of-sale. Although the overall gross profit margin registered a decrease to 19% (2010: 23%), the expansion via franchise will enable the Group to leverage local knowledge, capital and premises, exacting a faster rollout strategy which minimises the Group's capital commitment.

Our plan is to continue expanding our jewellery POS network and geographic footprint in Mainland China via the expansion of our franchise network. We select our franchisees with care and require them to operate according to our standard and to our branding and marketing guidelines. We closely monitor the sales performance and inventory level of our franchised POS.

To further broaden the sales channel, the Group has launched an e-commerce platform to capture the high ground in the fast-emerging cyber market in Greater China and other regions. Further, to capture the promising market potential and increase in popularity of corporate gifts in China, the Group has entered into the corporate gift and premium sector.

over

350

shops in China

Mainland China has regained growth momentum, boosting people's income and consumption. China continues to provide large market potential for HKRH.

金至尊
3D-GOLD

尊网
zun1.com

LA MILKY WAY
銀河明星★珠寶

- 20 Anhui
- 21 Beijing
- 8 Chongqing
- 1 Dalian City
- 9 Fujian
- 3 Gansu
- 48 Guangdong
- 10 Guangxi
- 2 Guizhou
- 4 Hainan
- 16 Hebei
- 6 Heilongjiang
- 12 Henan
- 9 Hong Kong
- 23 Hubei
- 13 Hunan
- 5 Inner Mongolia
- 37 Jiangsu
- 6 Jiangxi
- 6 Jilin
- 7 Liaoning
- 2 Macau
- 1 Ningxia
- 1 Qinghai
- 9 Shaanxi
- 54 Shandong
- 9 Shanghai
- 7 Shanxi
- 8 Sichuan
- 10 Tianjin
- 1 Tibet Autonomous Region
- 4 Xinjiang Uygur
- 4 Yunnan
- 4 Zhejiang

Our raw materials include, among other commodities, diamonds, gemstones, platinum and gold. Gold prices have fluctuated significantly during the Period. The Group has hedged the risk of gold price fluctuations through gold loans and bullion forward contracts. During the Period, fair value changes in financial instruments and gold loans of HK\$4 million was recognized in the income statement.

Brand Recognition and Marketing Programme

During the Period, besides the regular marketing activities, the Group sponsored a wide range of events, including the Crown Sponsorship of Miss Chinese Cosmo Beauty Pageant 2011, Diamond Sponsorship of Alan Tam's Concert 2011 in Beijing and the Opening of the 50th Shop in Shangdong Province. Our effort in brand promotion has again won recognition by the World Brand Lab: with a ranking of 177th among China Top 500 Most Valuable Brands 2011 and 2nd in the category of jewellery brands with a brand value of RMB7.632 billion.

Products and Awards

Our Product Design and Development Department is committed to creating jewellery designs of style and taste for customers. In February 2012, our design won one of the Best of Show awards in the 13th Hong Kong Jewellery Design Competition organised by the Hong Kong Trade Development Council and other associations.

Prospects

With more than 80% of our turnover from Mainland China, the Group remains confident and positive to the gold and jewellery retail market in the years ahead and will continue to enlarge its retail network in Mainland China; while continuing to promote our brand to secure even higher recognition and trust, as well as spread our good reputation for product design, quality, value and authenticity.

We constantly strengthen our customer loyalty program to more effectively promote our high-value products. The Group is also widening its product range, from classic to contemporary; as well as from mass luxury products to high-end luxury items.

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

The Group centralizes funding for all its operations through the corporate treasury based in Hong Kong. As at 31 December 2011, the Group had total cash and cash equivalents amounting to HK\$162 million (30 June 2011: HK\$261 million) whilst total net assets were HK\$638 million (30 June 2011: HK\$610 million). The Group's net gearing ratio as at 31 December 2011 was 110% (30 June 2011: 80%), being a ratio of total borrowing of HK\$861 million (30 June 2011: HK\$748 million) less pledged bank deposits and bank balances and cash of HK\$162 million (30 June 2011: HK\$261 million) to total equity of HK\$638 million (30 June 2011: HK\$610 million). After taking into account the gold inventories of HK\$619 million (30 June 2011: HK\$464 million), the Group's adjusted net gearing ratio as at 31 December 2011 was 13% (30 June 2011: 4%), being a ratio of total borrowing less pledged bank deposits, bank balances and cash and gold inventories to total equity.

Contingent Liabilities and Capital Commitments

Contingent liabilities and capital commitments of the Group as at 31 December 2011 are set out in notes 23 and 19 to the condensed consolidated financial statements.

Pledge of Assets

As at 31 December 2011, the Group's inventories and bank deposits with a carrying amount of HK\$428 million (30 June 2011: HK\$240 million) and HK\$37 million (30 June 2011: HK\$36 million), respectively were pledged to banks as securities to obtain the banking facilities granted to subsidiaries of the Group.

Financial Risk and Exposure

Except for the financial derivatives set out in notes 13 and 15 to the condensed consolidated financial statements, the Group did not have any outstanding material foreign exchange contracts, interest or currency swaps, or other financial derivatives as at 31 December 2011.

Employees and Remuneration Policy

As at 31 December 2011, the Group had 2,392 employees (30 June 2011: 2,153). The Group's remuneration policy is periodically reviewed by the Remuneration Committee and the Board. Remuneration is determined with reference to market conditions, company performance, and individual qualifications and performance.

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

At 31 December 2011, the interests and short positions of the directors and chief executives of the Company and their associates in the shares, underlying shares and 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 the Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) were as follows:

(a) Long positions in shares

Name of director	Number of ordinary shares			Total	% of issued ordinary shares
	Personal interests	Family interests	Corporate interests		
Executive Directors					
Dr. Wong, Kennedy Ying Ho	4,574,373	240,000 (Note a)	705,564,805 (Note b)	710,379,178	36.08%
Mr. Chui Chuen Shun	6,085,900	–	–	6,085,900	0.31%
Dr. Hui Ho Ming, Herbert	19,271,900	–	–	19,271,900	0.98%
Mr. Mung Kin Keung	4,517,900	–	–	4,517,900	0.23%
Dr. Liu Wangzhi	15,556,000	–	156,874,847 (Note c)	172,430,847	8.76%
Mr. Lam Kwok Hing, Wilfred	–	400,000 (Note d)	–	400,000	0.02%
Ms. Wong Wing Yan, Ella	88,000	200,500 (Note e)	–	288,500	0.01%
Non-executive Director					
Mr. Kung Ho	72,000	–	–	72,000	0.00%
Independent Non-executive Directors					
Mr. Fan, Anthony Ren Da	–	–	–	–	–
Ms. Estella Yi Kum Ng	–	–	–	–	–
Mr. Wong Kam Wing	3,790	–	–	3,790	0.00%

Notes:

- (a) The shares are held by the spouse of Dr. Wong, Kennedy Ying Ho ("Dr. Wong").
- (b) Of the 705,564,805 shares, 646,761,055 shares are held by Perfect Ace Investments Limited ("Perfect Ace") and 58,803,750 shares are held by Limin Corporation. Perfect Ace is wholly-owned by Ying Ho (Nominees) Limited ("YH Nominees"). YH Nominees holds 100% in trust for Limin Corporation which is wholly-owned by Dr. Wong.
- (c) The shares are held by Ming Feng Group Holdings Limited ("Ming Feng"). Ming Feng is owned as to 49% by Ms. Chan Yangfang ("Ms. Chan"), the spouse of Dr. Liu Wangzhi ("Dr. Liu") and 51% by Dr. Liu. Ms. Chan holds 49% shares in trust for Dr. Liu. As such, Dr. Liu deems to have interest in all the shares in Ming Feng.
- (d) The shares are held by the spouse of Mr. Lam Kwok Hing, Wilfred.
- (e) The shares are held by the spouse of Ms. Wong Wing Yan, Ella

(b) Long positions in underlying shares of equity derivatives of the Company

Name of director	Capacity	Number of shares interested	% of shareholding
Executive Directors			
Dr. Wong, Kennedy Ying Ho	Controlled corporation (Note a)	403,374	0.02%
	Beneficial owner (Note b)	1,000,000	0.05%
	Controlled corporation (Note c)	10,126,582	0.51%
Mr. Chui Chuen Shun	Beneficial owner (Note b)	1,000,000	0.05%
Dr. Hui Ho Ming, Herbert	Beneficial owner (Note b)	1,000,000	0.05%
	Beneficial owner (Note c)	5,063,291	0.26%
Mr. Mung Kin Keung	Beneficial owner (Note b)	1,000,000	0.05%
Dr. Liu Wangzhi	Beneficial owner (Note b)	1,000,000	0.05%
	Beneficial owner (Note c)	10,126,582	0.51%
Mr. Lam Kwok Hing, Wilfred	Beneficial owner (Note b)	5,500,000	0.28%
Ms. Wong Wing Yan, Ella	Beneficial owner (Note b)	5,000,000	0.25%
Non-executive Director			
Mr. Kung Ho	Beneficial owner (Note b)	1,000,000	0.05%
Independent Non-executive Directors			
Mr. Fan, Anthony Ren Da	Beneficial owner (Note b)	551,790	0.03%
Ms. Estella Yi Kum Ng	Beneficial owner (Note b)	551,790	0.03%
Mr. Wong Kam Wing	Beneficial owner (Note b)	100,000	0.01%

Notes:

- (a) These derivatives are convertible preference shares of the Company. Dr. Wong was deemed to be interested in 403,374 convertible preference shares through his controlling interests in Perfect Ace and Limin Corporation. Of the 403,374 convertible preference shares, 3,374 and 400,000 convertible preference shares are held by Perfect Ace and Limin Corporation respectively. Each preference share is convertible to one ordinary share of the Company at any time from a date not earlier than one year from 3 October 2008.
- (b) All interests above are in the form of share options of the Company.
- (c) All interests above are in the form of convertible bonds convertible into ordinary shares of the Company.

Saved as disclosed above, none of the directors, chief executives nor their associates had any interests or short positions in any shares or debentures of the Company or any of its associated corporation at 31 December 2011.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2011, 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.

(a) Long positions in shares of the Company

Name of substantial shareholder	Capacity	Number of issued ordinary shares held	% of ordinary shares
Perfect Ace Investments Limited	Beneficial owner (Note a)	646,761,055	32.85%
Limin Corporation	Beneficial owner (Note a)	58,803,750	2.99%
Savona Limited	Beneficial owner (Note b)	101,250,000	5.14%
Dr. Liu Wangzhi	Corporate interest (Note c)	156,874,847	7.97%
	Beneficial owner	15,556,000	0.79%

Notes:

- (a) Please refer to the corporate interests of Dr. Wong in the Company as disclosed under "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" section above.
- (b) Savona Limited is wholly-owned by Chime Corporation Limited, which is owned as to 99.69% by the Estate of Nina Kung, also known as Nina T.H. Wang.
- (c) Please refer to the corporate interests of Dr. Liu in the Company as disclosed under "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" section above.

(b) Long positions in underlying shares of equity derivatives of the Company

Name of substantial shareholder	Capacity	Number of shares interested	% of shareholding
Perfect Ace Investments Limited	Beneficial owner (Notes a & b)	3,374	0.00%
Limin Corporation	Beneficial owner (Notes a & b)	400,000	0.02%
	Beneficial owner (Notes c)	10,126,582	0.51%
Diamond Season Limited	Beneficial owner (Notes c & d)	75,949,367	3.85%

Notes:

- (a) Each preference share is convertible to one ordinary share of the Company at any time from a date not earlier than one year from 3 October 2008.
- (b) Please refer to the convertible preference shares in the Company held by Dr. Wong as disclosed under the “DIRECTORS’ AND CHIEF EXECUTIVES’ INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES” section above.
- (c) All interests above are in the form of convertible bonds convertible into ordinary shares of the Company.
- (d) Diamond Season Limited is wholly-owned by Rightwood Enterprises Inc., which is wholly-owned by the Estate of Nina Kung, also known as Nina T.H. Wang.

Saved as disclosed above, the Company had not been notified of any other relevant interests or short positions in the issued share capital of the Company at 31 December 2011.

SHARE OPTIONS

Particulars of the Company’s share option scheme are set out in note 18 to the condensed consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company’s code on corporate governance practices was adopted with reference to the provisions of the Code on Corporate Governance Practices (the “**Code Provision**”) contained in Appendix 14 to the Rules Governing the Listing Securities on the Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), except for the following deviations from the Code Provision:

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company does not at present have any office with the title “chief executive officer”. The Board is of the view that currently vesting the roles of the chairman and chief executive officer in Dr. Wong, Kennedy Ying Ho provides the Group with strong and consistent leadership and allows for more effective and efficient business planning and decisions as well as execution of long term business strategies.

Code Provision A.4.1 stipulates that the non-executive directors should be appointed for a specific term and subject to re-election. The Company has not fixed the term of appointment for non-executive director and independent non-executive directors. However, all non-executive director and independent non-executive directors are subject to retirement by rotation at least every three years and re-election at the annual general meeting of the Company pursuant to the Company’s bye-laws. As such, the Board considers that sufficient measures have been taken to ensure the Company’s corporate governance practices are no less exacting than those in the Code Provision.

The current corporate governance practice of the Company will be reviewed and updated in a timely manner in order to comply with Code Provision.

ESTABLISHMENT OF CORPORATE GOVERNANCE COMMITTEE

In response to the recent amendments to the Listing Rules relating to corporate governance, the Company has established a Corporate Governance Committee (“**CG Committee**”) for the purpose of ensuring the Company’s corporate governance standards meet with prevailing market standards and requirements. The CG Committee comprises three executive directors, namely Mr. Mung Kin Kung, Dr. Hui Ho Ming, Herbert and Mr. Lam Kwok Hing, Wilfred and an independent non-executive director, Ms. Estella Yi Kum Ng.

The CG Committee recommended an internal code on ethical conduct to the Board for the purpose of promoting:

1. the honest and ethical conduct of all staff, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
2. all employees are required to maintain a basic level of personal integrity;
3. full, fair, accurate, timely and understandable disclosure in periodic reports required to be filed by the prevailing regulations; and
4. compliance with all rules and regulations that apply to the Company and its officers.

In particular, a separate section on sexual harassment has been incorporated into the internal code on ethical conduct to reflect the view of the Company’s serious commitment to this issue. The internal code on ethical conduct has been approved by the Board and implemented in February 2012.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 to the Listing Rules. All directors of the Company have confirmed, following specific enquiry by the Company, that they have fully complied with the required standards set out in the Model Code throughout the Period.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim financial statements for the Period. At the request of the Board, the Company’s external auditor, Deloitte Touche Tohmatsu, has carried out a review of the unaudited interim financial statements in accordance with Hong Kong Standard on Review Engagements 2410 “*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*”.

As at the date of this report, the Audit Committee of the Company comprises three independent non-executive directors, namely, Ms. Estella Yi Kum Ng, Mr. Fan, Anthony Ren Da and Mr. Wong Kam Wing.

By Order of the Board

Hong Kong Resources Holdings Company Limited

Dr. Wong, Kennedy Ying Ho, BBS J.P.

Chairman

Hong Kong, 27 February 2012

Deloitte.

德勤

TO THE BOARD OF DIRECTORS OF
HONG KONG RESOURCES HOLDINGS COMPANY LIMITED

香港資源控股有限公司

(incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 17 to 39, which comprises the condensed consolidated statement of financial position of Hong Kong Resources Holdings Company Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) as at 31 December 2011 and the related condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquires, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Without qualifying our review conclusion, we draw attention to the fact that the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period ended 31 December 2010 and the relevant explanatory notes disclosed in the interim financial information have not been reviewed in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

27 February 2012

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 31 December 2011

	Notes	Six months ended 31 December	
		2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Turnover	3	2,075,962	1,165,807
Cost of sales		(1,684,487)	(897,168)
Gross profit		391,475	268,639
Other income		10,354	14,130
Selling expenses		(243,335)	(156,531)
General and administrative expenses		(68,923)	(76,110)
Equity-settled share-based payments	18(b)	(1,320)	(2,740)
Other operating expenses		(9,261)	(10,480)
Profit from operations		78,990	36,908
Changes in fair value of derivative financial instruments, gold loans and financial assets at fair value through profit or loss	4	(3,290)	5,465
Finance costs	5	(31,415)	(22,040)
Share of results of associates		(1,477)	(2,654)
Share of results of jointly controlled entities		(1,411)	–
Profit before taxation	6	41,397	17,679
Taxation	7	(19,275)	(8,282)
Profit for the period		22,122	9,397
Other comprehensive income:			
Exchange difference arising on translation		8,673	8,312
Total comprehensive income for the period		30,795	17,709
Profit for the period attributable to:			
Owners of the Company		22,122	9,397
Non-controlling interests		–	–
		22,122	9,397
Total comprehensive income for the period attributable to:			
Owners of the Company		30,795	17,709
Non-controlling interests		–	–
		30,795	17,709
Earnings per ordinary share	9		
Basic		HK\$0.011	HK\$0.005
Diluted		HK\$0.011	HK\$0.004

Condensed Consolidated Statement of Financial Position

As at 31 December 2011

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	Notes	31 December 2011 HK\$'000 (Unaudited)	30 June 2011 HK\$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	10	80,746	77,921
Deposits paid	11	8,849	10,733
Intangible assets	12	168,066	168,066
Interests in associates		–	–
Interests in jointly controlled entities		3,666	1,532
		261,327	258,252
Current assets			
Inventories		1,191,642	982,399
Trade and other receivables and deposits paid	11	360,015	248,105
Financial assets at fair value through profit or loss	13	1,470	–
Pledged bank deposits		36,675	36,040
Bank balances and cash		125,497	224,804
		1,715,299	1,491,348
Current liabilities			
Trade and other payables, accruals and deposits received	14	412,332	324,659
Derivative financial instruments	15	810	1,570
Convertible bonds	15	145,819	–
Obligations under finance leases		450	432
Bank borrowings	16	481,136	374,445
Tax liabilities		24,550	24,145
		1,065,097	725,251
Net current assets		650,202	766,097
Total assets less current liabilities		911,529	1,024,349
Non-current liabilities			
Bank borrowings	16	35,000	40,000
Convertible bonds	15	198,384	332,532
Obligations under finance leases		312	537
Deferred tax liabilities		40,075	41,695
		273,771	414,764
NET ASSETS		637,758	609,585
CAPITAL AND RESERVES			
Share capital	17	19,696	19,696
Reserves		618,062	589,889
Equity attributable to owners of the Company		637,758	609,585
Non-controlling interests		–	–
TOTAL EQUITY		637,758	609,585

19 Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 December 2011

	Attributable to owners of the Company										Non-controlling interests	
	Ordinary share capital	Preference share capital	Share premium	Contributed surplus	Other reserve	Share option reserve	Exchange reserve	PRC statutory reserve	Retained earnings	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (note (i))	HK\$'000	HK\$'000	HK\$'000 (note (ii))	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 2010 (unaudited)	19,462	234	521,306	66,162	(213,605)	12,358	–	2,051	142,113	550,081	–	550,081
Profit for the period	–	–	–	–	–	–	–	–	9,397	9,397	–	9,397
Other comprehensive income for the period	–	–	–	–	–	–	8,312	–	–	8,312	–	8,312
Total comprehensive income for the period	–	–	–	–	–	–	8,312	–	9,397	17,709	–	17,709
Conversion of preference shares	230	(230)	–	–	–	–	–	–	–	–	–	–
Equity-settled share-based payments	–	–	–	–	–	2,740	–	–	–	2,740	–	2,740
Transfer between reserves	–	–	–	–	–	–	–	7,388	(7,388)	–	–	–
Dividends (note 8)	–	–	–	(6,893)	–	–	–	–	–	(6,893)	–	(6,893)
At 31 December 2010 (unaudited)	19,692	4	521,306	59,269	(213,605)	15,098	8,312	9,439	144,122	563,637	–	563,637
At 1 July 2011 (audited)	19,692	4	521,306	59,269	(213,605)	15,346	24,827	9,439	173,307	609,585	–	609,585
Profit for the period	–	–	–	–	–	–	–	–	22,122	22,122	–	22,122
Other comprehensive income for the period	–	–	–	–	–	–	8,673	–	–	8,673	–	8,673
Total comprehensive income for the period	–	–	–	–	–	–	8,673	–	22,122	30,795	–	30,795
Equity-settled share-based payments	–	–	–	–	–	1,320	–	–	–	1,320	–	1,320
Transfer between reserves	–	–	–	–	–	–	–	9,549	(9,549)	–	–	–
Dividends (note 8)	–	–	–	(3,942)	–	–	–	–	–	(3,942)	–	(3,942)
At 31 December 2011 (unaudited)	19,692	4	521,306	55,327	(213,605)	16,666	33,500	18,988	185,880	637,758	–	637,758

Notes:

- (i) Other reserve represents the difference between the fair value of the consideration paid and the carrying amount of the net assets attributable to the additional interest in China Gold Silver Group Company Limited, a subsidiary of the Company, being acquired from the non-controlling interests on 14 May 2010.
- (ii) People's Republic of China (the "PRC") statutory reserve of the Group represents general and development fund reserve applicable to the PRC subsidiary which was established in accordance with the relevant regulations.

Condensed Consolidated Statement of Cash Flows

For the six months ended 31 December 2011

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	Six months ended 31 December	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Net cash used in operating activities	(167,615)	(109,663)
Investing activities		
Purchase of property, plant and equipment	(13,007)	(43,232)
Investments in associates	—	(3,000)
Investments in jointly controlled entities	(2,000)	—
Interest received	1,831	312
Net cash used in investing activities	(13,176)	(45,920)
Financing activities		
Proceeds from the issue of convertible bonds	—	354,000
New bank borrowings	379,254	243,703
Repayment of bank and other borrowings	(277,434)	(338,176)
Interest paid	(19,765)	(22,040)
Expenses on issue of convertible bonds	—	(10,800)
Dividends paid	(3,942)	(6,893)
Net cash from financing activities	78,113	219,794
Net (decrease) increase in cash and cash equivalents	(102,678)	64,211
Cash and cash equivalents at beginning of the period	224,804	83,516
Effect of foreign exchange rate changes	3,371	8,312
Cash and cash equivalents at end of the period, represented by bank balances and cash	125,497	156,039

21 Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2011

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 31 December 2011 are the same as those followed in the preparation of the Group’s annual financial statements for the fifteen-month period from 1 April 2010 to 30 June 2011, except for the newly adopted accounting policies as described below:

Financial assets at fair value through profit or loss (“FVTPL”)

Financial assets at FVTPL are financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

Application on new and revised Hong Kong Financial Reporting Standards

In addition, in the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HKFRS 7 (Amendments)	Disclosures-Transfers of Financial Assets
HKAS 24 (as revised in 2009)	Related Party Disclosures
HK(IFRIC)-Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the above new and revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

The Group has not early applied new or revised standards, amendments or interpretations that have been issued but are not yet effective. The following new or revised HKFRSs have been issued after the date the consolidated financial statements for the fifteen-month period from 1 April 2010 to 30 June 2011 were authorised for issuance and are not yet effective.

2. PRINCIPAL ACCOUNTING POLICIES-CONTINUED

HKFRS 7 (Amendments)	Disclosures-Offsetting Financial Assets and Financial Liabilities ¹
HKFRS 9 and HKFRS 7 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures ²
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities ³
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine ¹

¹ Effective for annual periods beginning on or after 1 January 2013

² Effective for annual periods beginning on or after 1 January 2015

³ Effective for annual periods beginning on or after 1 January 2014

The directors of the Company anticipate that the application of these new and revised standards and interpretations will have no material impact on the result and the financial position of the Group.

3. TURNOVER AND SEGMENT INFORMATION

(a) Turnover

An analysis of the Group's turnover for the period is as follows:

	Six months ended 31 December	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Sales of goods	2,058,033	1,158,679
Franchise income	17,929	7,128
	2,075,962	1,165,807

3. TURNOVER AND SEGMENT INFORMATION-CONTINUED

(b) Segment information

The following is an analysis of the Group's turnover and results by operating segments for the period under review.

For the six months ended 31 December 2011 (unaudited)

	Retail and franchising operations for selling gold and jewellery products in Mainland China HK\$'000	Retail operations for selling gold and jewellery products in Hong Kong & Macau HK\$'000	Reportable segment total HK\$'000	Others (note) HK\$'000	Consolidated HK\$'000
REVENUE					
External sales	1,886,711	188,648	2,075,359	603	2,075,962
RESULT					
Segment results	128,755	10,057	138,812	(2,168)	136,644
Other income					10,354
Unallocated staff related expenses					(20,973)
Other unallocated corporate expenses					(15,919)
Adverting, promotion and business development expenses					(29,796)
Equity-settled share-based payments					(1,320)
Changes in fair value of derivative financial instruments, gold loans and financial assets at fair value through profit or loss					(3,290)
Finance costs					(31,415)
Share of results of associates					(1,477)
Share of results of jointly controlled entities					(1,411)
Profit before taxation					41,397
Taxation					(19,275)
Profit for the period					22,122

3. TURNOVER AND SEGMENT INFORMATION-CONTINUED

(b) Segment information-continued

For the six months ended 31 December 2010 (unaudited)

	Retail and franchising operations for selling gold and jewellery products in Mainland China HK\$'000	Retail operations for selling gold and jewellery products in Hong Kong & Macau HK\$'000	Reportable segment total HK\$'000	Others (note) HK\$'000	Consolidated HK\$'000
REVENUE					
External sales	978,434	184,610	1,163,044	2,763	1,165,807
RESULT					
Segment results	65,310	26,613	91,923	(748)	91,175
Other income					14,130
Unallocated staff related expenses					(18,303)
Other unallocated corporate expenses					(17,458)
Advertising, promotion and business development expenses					(29,896)
Equity-settled share-based payments					(2,740)
Changes in fair value of derivative financial instruments and gold loans					5,465
Finance costs					(22,040)
Share of results of associates					(2,654)
Profit before taxation					17,679
Taxation					(8,282)
Profit for the period					9,397

Segment profit represents the profit earned by each segment without allocation of other income, central administration costs, marketing and promotion expenses, directors' salaries, equity-settled share-based payments, changes in fair value of derivative financial instruments, gold loans and financial assets at fair value through profit or loss, share of results of associates and jointly controlled entities, finance costs and taxation. This is the measure reported to the chief operating decision makers that are the directors of the Company for the purposes of resource allocation and performance assessment.

Note: Others represent other operating segments that are not reportable, which include the trading of other precious metals in Hong Kong and online marketing and e-commerce.

4. CHANGES IN FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS, GOLD LOANS AND FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Six months ended 31 December	
	2011	2010
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Change in fair value of derivatives embedded in convertible bonds (note 15(ii))	760	13,192
Change in fair value of gold loans designated as derivative financial instruments (note 16)	2,544	(7,727)
Change in fair value of financial assets at fair value through profit or loss	(6,594)	—
	(3,290)	5,465

5. FINANCE COSTS

	Six months ended 31 December	
	2011	2010
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interests on:		
Bank borrowings wholly repayable within 5 years	8,795	5,634
Other borrowings wholly repayable within 5 years	—	3,527
Obligations under finance leases	21	26
Other finance costs	2,005	250
Effective interest on convertible bonds (note 15(i))	20,594	12,603
	31,415	22,040

6. PROFIT BEFORE TAXATION

	Six months ended 31 December	
	2011	2010
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit before taxation has been arrived at after charging (crediting):		
Advertising, promotion and business development expenses	29,796	29,896
Cost of inventories recognised as an expense	1,684,487	897,168
Depreciation of property, plant and equipment	10,546	7,331
Exchange gain, net	(6,450)	(6,178)
Loss on disposal of property, plant and equipment	—	4,626
Interest income	(1,831)	(312)
Operating lease rentals	121,626	78,293

For the six months ended 31 December 2011

7. TAXATION

	Six months ended 31 December	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Current tax:		
Hong Kong Profits Tax	4,018	3,784
PRC Enterprise Income Tax	16,758	5,759
Macau Complementary Tax	119	197
	20,895	9,740
Deferred taxation	(1,620)	(1,458)
	19,275	8,282

Hong Kong Profits Tax is calculated at 16.5% (six months ended 31 December 2010: 16.5%) on the estimated assessable profits for the period.

Pursuant to the Income Tax Law of the PRC, a subsidiary of the Company established in the PRC is entitled to a preferential income tax rate of 24% (six months ended 31 December 2010: 22%) during the period. According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprises Income Tax (Guoshuifa [2007] No. 39), the tax rate of the entity that previously enjoyed the tax preferential treatment is to be increased progressively to 25% over a five-year period up to 2012.

The Macau Complementary Tax is calculated progressively at rates ranging from 9% to 12% of the estimated assessable profit for the period.

8. DIVIDENDS

	Six months ended 31 December	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Dividends recognised as distribution during the period:		
<i>Ordinary shares</i>		
Final dividend paid for the fifteen months ended 30 June 2011 of HK0.20 cents per share (six months ended 31 December 2010: for the year ended 31 March 2010 of HK0.35 cents per share)	3,938	6,811
<i>Preference shares</i>		
Final dividend paid for the fifteen months ended 30 June 2011 of HK0.875 cents per share (six months ended 31 December 2010: for the year ended 31 March 2010 of HK0.35 cents per share)	4	82
	3,942	6,893

The Board has resolved not to declare an interim dividend in respect of the six months ended 31 December 2011 to both the holders of ordinary shares and preference shares of the Company.

For the six months ended 31 December 2011

9. EARNINGS PER ORDINARY SHARE

	Six months ended 31 December	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Earnings:		
Profit for the period attributable to owners of the Company	22,122	9,397
Dividends on preference shares	(1)	(54)
Profit for the period attributable to owners of the Company for the purpose of basic earnings per ordinary share	22,121	9,343
Effect of dilutive potential ordinary shares:		
Dividends on preference shares	1	54
Effective interest on convertible bonds	—	12,603
Change in fair value of derivatives embedded in convertible bonds	—	(13,192)
Profit for the period attributable to owners of the Company for the purpose of diluted earnings per ordinary share	22,122	8,808
	Number of	
	'000 (Unaudited)	Number of '000 (Unaudited)
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per ordinary share	1,969,086	1,954,086
Effect of dilutive potential ordinary shares:		
Preference shares	404	15,403
Share options	—	553
Convertible bonds	—	151,919
Weighted average number of ordinary shares for the purpose of diluted earnings per ordinary share	1,969,490	2,121,961

Note:

The computation of diluted earnings per ordinary share for the six months ended 31 December 2011 did not assume the exercise of certain share options because the exercise price is higher than the average share price and the conversion of the Company's outstanding convertible bonds since their exercise would result in an increase in earnings per ordinary share.

10. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of HK\$13,007,000 (six months ended 31 December 2010: HK\$43,232,000).

11. TRADE AND OTHER RECEIVABLES AND DEPOSITS PAID

	31 December 2011 HK\$'000 (Unaudited)	30 June 2011 HK\$'000 (Audited)
Non-current deposits paid:		
Rental and utility deposits	8,849	10,733
Current trade and other receivables and deposits paid comprise:		
Trade receivables	277,877	200,987
Other receivables and deposits paid	82,138	47,118
	360,015	248,105

Retail sales are usually made in cash, through credit cards or through reputable and dispersed department stores. The Group generally allows a credit period up to 180 days to its debtors.

Included in trade receivables at 31 December 2011 are trade receivables from associates and jointly controlled entities amounting to HK\$23,965,000 (30 June 2011: HK\$27,200,000) and HK\$4,352,000 (30 June 2011: HK\$7,043,000), respectively.

Included in other receivables at 31 December 2011 is prepayment to a related company, which is 60% owned by Dr. Liu Wangzhi, a director of the Company, for sourcing of gold from the Shanghai Gold Exchange on behalf of the Group, amounting to HK\$21,532,000 (30 June 2011: HK\$13,113,000).

The following is an aged analysis of trade receivables presented based on the invoice date, net of allowance, at the end of the reporting period.

	31 December 2011 HK\$'000 (Unaudited)	30 June 2011 HK\$'000 (Audited)
0-30 days	229,159	155,255
31-60 days	13,043	6,442
61-90 days	7,093	4,079
Over 90 days	28,582	35,211
	277,877	200,987

12. INTANGIBLE ASSETS

The trademarks have contractual lives of 10 years commencing in December 2008 and April 2009, respectively, and are renewable at minimal cost. The directors of the Company are of the opinion that the Group has the intention and ability to renew the trademarks continuously. As a result, the trademarks are considered by the directors of the Company as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. The trademarks will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired.

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The amount as at 31 December 2011 represents the fair value of the open position of a gold bullion contract through margin account with notional value of USD15,556,500 (30 June 2011: nil). The contract contains terms enabling the Group either to take delivery of the gold bullion or closing out the position and settling net in cash at the Group's discretion. The fair value is determined based on the quoted market price at the end of the reporting period.

14. TRADE AND OTHER PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

	31 December 2011 HK\$'000 (Unaudited)	30 June 2011 HK\$'000 (Audited)
Trade payables	162,963	96,735
Deposits received from customers (note a)	66,939	88,488
Franchisee guarantee deposits (note b)	42,076	33,017
Other payables, accruals and other deposits	140,354	106,419
	412,332	324,659

Notes:

- (a) Deposits received from customers represent deposits and receipts in advance from the franchisees and customers for purchase of inventories.
- (b) Franchisee guarantee deposits represent deposits from the franchisees for use of the trademarks "3D-GOLD".

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period.

	31 December 2011 HK\$'000 (Unaudited)	30 June 2011 HK\$'000 (Audited)
0 to 30 days	72,202	60,252
31-60 days	52,243	12,755
61-90 days	11,658	11,106
Over 90 days	26,860	12,622
	162,963	96,735

15. CONVERTIBLE BONDS

(i) Convertible bonds

Convertible bonds due 2012 ("CB 2012")

On 23 July 2010, the Company entered into a subscription agreement with independent third parties (the "subscribers") for the issue of convertible bonds at par value with aggregate principal amount of HK\$138,000,000. Each convertible bond bears interest at the rate of 5% per annum which is due every six months, and the convertible bond matures on the date falling on the second anniversary from the date of issue of such convertible bond.

The conversion can be made at anytime on or after 3 August 2010 up to and including 2 August 2012 at a conversion price of HK\$1.58 per ordinary share, subject to anti-dilutive adjustments.

As at 31 December 2011, a total of 87,341,772 (30 June 2011: 87,341,772) ordinary shares will be allotted and issued upon the conversions in full of the convertible bonds.

The Company shall redeem the CB 2012 at 110% of the respective outstanding principal amount on maturity date of 2 August 2012.

Upon issue of CB 2012, an amount of HK\$133,748,000 and HK\$4,252,000 were recognised as liability and derivative embedded in CB 2012, respectively.

At 31 December 2011, CB 2012 with a carrying amount of HK\$145,819,000 (30 June 2011: HK\$141,133,000) (principal amount of HK\$138,000,000) remained outstanding.

Convertible bonds due 2013 ("CB 2013")

On 3 August 2010, the Company entered into a subscription agreement with third parties (the "subscribers") for the issue of convertible bonds at par value with aggregate principal amount of HK\$216,000,000. Each convertible bond bears interest at the rate of 5% per annum which is due every six months, and the convertible bond matures on the date falling on the third anniversary from the date of issue of such convertible bond. CB 2013 with principal amount of HK\$56,000,000 were granted to related parties of the Company, including Dr. Liu Wangzhi and Dr. Hui Ho Ming, Herbert, the directors of the Company, Ace Captain Investments Limited, a company wholly-owned by Mr. Martin Lee Ka Shing who is an associate of Mr. Chui Chuen Shun, a director of the Company, and Limin Corporation which is wholly-owned by Dr. Wong, Kennedy Ying Ho, a substantial shareholder and the Chairman of the Company.

The conversion can be made at anytime on or after 15 September 2010 up to and including 14 September 2013 at a conversion price of HK\$1.58 per ordinary share, subject to anti-dilutive adjustments.

As at 31 December 2011, a total of 136,708,861 (30 June 2011: 136,708,861) ordinary shares will be allotted and issued upon the conversions in full of the convertible bonds.

The Company shall redeem the CB 2013 at 110% of the respective outstanding principal amount on maturity date of 14 September 2013.

Upon issue of CB 2013, an amount of HK\$191,488,000 and HK\$24,512,000 were recognised as liability and derivative embedded in CB 2013, respectively.

15. CONVERTIBLE BONDS-CONTINUED

(i) Convertible bonds-continued

Convertible bonds due 2013 ("CB 2013")-continued

At 31 December 2011, CB 2013 with a carrying amount of HK\$198,384,000 (30 June 2011: HK\$191,399,000) (principal amount of HK\$216,000,000) remained outstanding.

The movement of the liability component of the CB 2012 and CB 2013 for both periods are set out as below:

	Liability component		Total
	CB 2012	CB 2013	
	HK\$'000	HK\$'000	HK\$'000
At 1 July 2011 (audited)	141,133	191,399	332,532
Coupon interest accrued at 1 July 2011 and included in other payables	2,817	3,224	6,041
Interest charged during the period	8,164	12,430	20,594
Payment of coupon interest	(3,421)	(5,444)	(8,865)
Coupon interest accrued during the period and included in other payables	(2,874)	(3,225)	(6,099)
At 31 December 2011 (unaudited)	145,819	198,384	344,203

Analysed for reporting purpose as:

	31 December 2011 HK\$'000 (Unaudited)	30 June 2011 HK\$'000 (Audited)
Current liabilities	145,819	–
Non-current liabilities	198,384	332,532
	344,203	332,532

	Liability component		Total
	CB 2012	CB 2013	
	HK\$'000	HK\$'000	HK\$'000
At 1 July 2010 (unaudited)	–	–	–
Issue of convertible bonds	133,748	191,488	325,236
Expenses on issue of convertible bonds	–	(9,612)	(9,612)
Interest charged during the period	6,049	6,554	12,603
Coupon interest accrued during the period and included in other payables	(2,854)	(3,196)	(6,050)
At 31 December 2010 (unaudited)	136,943	185,234	322,177

The effective interest rates of CB 2012 and CB 2013 are 10.74% and 12.02%, respectively.

15. CONVERTIBLE BONDS-CONTINUED

(ii) Derivative financial instruments

	Embedded derivatives		
	CB 2012	CB 2013	Total
	HK\$'000	HK\$'000	HK\$'000
At 1 July 2011 (audited)	23	1,547	1,570
Changes in fair value (note 4)	93	(853)	(760)
At 31 December 2011 (unaudited)	116	694	810

	Embedded derivatives		
	CB 2012	CB 2013	Total
	HK\$'000	HK\$'000	HK\$'000
At 1 July 2010 (unaudited)	–	–	–
Embedded derivatives at date of issue of convertible bonds	4,252	24,512	28,764
Expenses on issue of convertible bonds	–	(1,188)	(1,188)
Changes in fair value (note 4)	(2,792)	(10,400)	(13,192)
At 31 December 2010 (unaudited)	1,460	12,924	14,384

The fair values of the derivatives embedded in CB 2012 and CB 2013 at the dates of issue, at 31 December 2010, at 30 June 2011 and at 31 December 2011 are based on valuation carried out on those dates by an independent professional valuer. The change in fair value of HK\$760,000 (six months ended 31 December 2010: HK\$13,192,000) has been credited to the profit or loss for the six months ended 31 December 2011.

The inputs used in the binomial option pricing model adopted by the independent professional valuer in determining the fair values at the respective dates were as follows:

	At date of issue	At 31 December 2010	At 30 June 2011	At 31 December 2011
CB 2012				
Share price	HK\$1.28	HK\$0.93	HK\$0.57	HK\$0.44
Exercise price	HK\$1.58	HK\$1.58	HK\$1.58	HK\$1.58
Expected dividend yield	0.81%	0.38%	1.83%	0.45%
Volatility	58.61%	51.36%	42.41%	80.35%
CB 2013				
Share price	HK\$1.26	HK\$0.93	HK\$0.57	HK\$0.44
Exercise price	HK\$1.58	HK\$1.58	HK\$1.58	HK\$1.58
Expected dividend yield	0.83%	0.38%	1.83%	0.45%
Volatility	58.23%	56.63%	51.30%	57.77%

16. BANK BORROWINGS

	31 December 2011 HK\$'000 (Unaudited)	30 June 2011 HK\$'000 (Audited)
Unsecured floating rate bank loans	121,680	144,188
Secured fixed rate bank loans	244,499	180,202
Secured floating rate bank loans	53,000	28,000
Secured fixed rate gold loans (note)	96,957	62,055
	516,136	414,445
Secured	394,456	270,257
Unsecured	121,680	144,188
	516,136	414,445
Carrying amounts repayable:		
Within one year	159,956	280,257
More than one year, but not exceeding two years	12,500	10,000
More than two years but not more than five years	22,500	30,000
	194,956	320,257
Carrying amount of bank loans that contain a repayment on demand clause (shown under current liabilities)		
–repayable within one year*	124,480	31,688
–repayable after more than one year, but not exceeding five years*	196,700	62,500
	321,180	94,188
	516,136	414,445
Less: Amounts due within one year and shown under current liabilities	(481,136)	(374,445)
	35,000	40,000

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

Note:

The gain arising from change in fair value of gold loans designated as derivative financial instruments of HK\$2,544,000 has been credited (six months ended 31 December 2010: loss of HK\$7,727,000 has been charged) to profit or loss for the six months period ended 31 December 2011. Fair value of gold loans has been determined by reference to the quoted bid prices of gold on the Shanghai Gold Exchange at the end of the reporting date.

17. SHARE CAPITAL

	Number of shares '000	Amount HK\$'000
Authorised:		
At 1 July 2011 and 31 December 2011		
Ordinary shares of HK\$0.01 each	4,000,000	40,000
Preference shares of HK\$0.01 each	3,000,000	30,000
	7,000,000	70,000
Ordinary shares issued and fully paid:		
At 1 July 2011 and 31 December 2011		
Ordinary shares of HK\$0.01 each	1,969,085	19,692
Preference shares issued and fully paid:		
At 1 July 2011 and 31 December 2011		
Preference shares of HK\$0.01 each	404	4
Total:		
At 1 July 2011 and 31 December 2011	1,969,489	19,696

The preference share, with a paid-up value of HK\$0.14 per share, shall entitle the holder thereof the right to convert one preference share into one fully-paid ordinary share of the Company at any time after one year from the date of issuance of the preference shares. The preference shares are not redeemable and do not bear any voting right.

Each preference share shall confer on its holder the right to be paid out of the profits of the Company available for dividend and resolved to be distributed pari passu with ordinary shares but otherwise in priority to any payment of dividend or any distribution in respect of any other class of shares, a fixed cumulative preferential dividend at the rate of 5% per annum on the paid-up value of the reference amount attributable to each preference share. The preference shares rank in priority to the ordinary shareholders as to a return of the nominal amount paid up on the preference shares and thereafter ranks pari passu with the ordinary shares on liquidation.

The undeclared cumulative preferential share dividend as at 31 December 2011 amounted to HK\$1,412 (30 June 2011: HK\$3,530).

18. SHARE-BASED PAYMENT TRANSACTIONS

The Company adopted a share option scheme at the special general meeting held on 23 January 2009 by way of an ordinary resolution (the “2009 Share Option Scheme”) for the purpose of providing incentives or rewards to eligible persons for their contribution or potential contribution to the Group. Eligible persons including but not limited to the Group’s shareholders, directors, employees, business partners, customers and suppliers. Particulars of the 2009 Share Option Scheme are set out in the 2010/11 annual report of the Company.

The vesting period of the share options is from the date of grant to the commencement of the exercisable period.

(a) The following table sets out the movements of the Company’s share options during the period:

Eligible person	Date of grant	Exercisable period	Exercise price HK\$	Number of options				
				Outstanding as at 1.7.2011	Reclassification during the period (Note)	Granted during the period	Exercise during the period	Outstanding as at 31.12.2011
Directors	23.1.2009	23.1.2009 to 22.1.2019	0.498	903,580	–	–	–	903,580
	20.7.2009	20.7.2009 to 19.7.2019	1.510	5,300,000	1,500,000	–	–	6,800,000
	13.4.2010	13.4.2010 to 12.4.2020	1.400	1,000,000	–	–	–	1,000,000
	26.7.2011	26.7.2011 to 25.7.2021	0.560	–	2,000,000	–	–	2,000,000
	26.7.2011	26.7.2012 to 25.7.2021	0.560	–	3,000,000	–	–	3,000,000
	26.7.2011	26.7.2013 to 25.7.2021	0.560	–	4,000,000	–	–	4,000,000
				7,203,580	10,500,000	–	–	17,703,580
Employees	20.7.2009	20.7.2009 to 19.7.2019	1.510	2,500,000	(1,500,000)	–	–	1,000,000
	26.7.2011	26.7.2011 to 25.7.2021	0.560	–	(2,000,000)	2,000,000	–	–
	26.7.2011	26.7.2012 to 25.7.2021	0.560	–	(3,000,000)	3,000,000	–	–
	26.7.2011	26.7.2013 to 25.7.2021	0.560	–	(4,000,000)	4,000,000	–	–
				2,500,000	(10,500,000)	9,000,000	–	1,000,000
Consultants	20.7.2009	20.7.2009 to 19.7.2019	1.510	1,300,000	–	–	–	1,300,000
	13.4.2010	13.4.2010 to 12.4.2020	1.400	2,000,000	–	–	–	2,000,000
	13.4.2010	13.7.2010 to 12.4.2020	1.400	5,000,000	–	–	–	5,000,000
	13.4.2010	13.10.2010 to 12.4.2020	1.400	5,000,000	–	–	–	5,000,000
	13.4.2010	13.1.2011 to 12.4.2020	1.400	5,768,000	–	–	–	5,768,000
	26.7.2011	26.7.2011 to 25.7.2021	0.560	–	–	500,000	–	500,000
	26.7.2011	26.7.2012 to 25.7.2021	0.560	–	–	750,000	–	750,000
	26.7.2011	26.7.2013 to 25.7.2021	0.560	–	–	1,000,000	–	1,000,000
				19,068,000	–	2,250,000	–	21,318,000
				28,771,580	–	11,250,000	–	40,021,580
Exercisable at the end of the period				28,771,580				31,271,580
Weighted average exercise price (HK\$)				1.406		0.560		1.169

Note: Mr. Lam Kwok Hing Wilfred and Ms. Wong Wing Yan Ella, holders of 5,500,000 and 5,000,000 share options respectively, changed from employees to directors on 17 August 2011.

18. SHARE-BASED PAYMENT TRANSACTIONS-CONTINUED

(a) –continued

Eligible person	Date of grant	Exercisable period	Exercise price HK\$	Number of options				
				Outstanding as at 1.7.2010	Reclassification during the period (Note)	Granted during the period	Exercise during the period	Outstanding as at 31.12.2010
Directors	23.1.2009	23.1.2009 to 22.1.2019	0.498	903,580	–	–	–	903,580
	20.7.2009	20.7.2009 to 19.7.2019	1.510	4,800,000	500,000	–	–	5,300,000
	13.4.2010	13.4.2010 to 12.4.2020	1.400	1,000,000	–	–	–	1,000,000
				6,703,580	500,000	–	–	7,203,580
Employees	20.7.2009	20.7.2009 to 19.7.2019	1.510	3,500,000	(1,000,000)	–	–	2,500,000
Consultants	20.7.2009	20.7.2009 to 19.7.2019	1.510	800,000	500,000	–	–	1,300,000
	13.4.2010	13.4.2010 to 12.4.2020	1.400	2,000,000	–	–	–	2,000,000
	13.4.2010	13.7.2010 to 12.4.2020	1.400	5,000,000	–	–	–	5,000,000
	13.4.2010	13.10.2010 to 12.4.2020	1.400	5,000,000	–	–	–	5,000,000
	13.4.2010	13.1.2011 to 12.4.2020	1.400	5,768,000	–	–	–	5,768,000
				18,568,000	500,000	–	–	19,068,000
				28,771,580	–	–	–	28,771,580
Exercisable at the end of the period				13,003,580				23,003,580
Weighted average exercise price (HK\$)				1.406				1.406

Note: Mr. Yin Richard Yingneng, a holder of 500,000 share options, resigned as a director of the Company and become a consultant on 19 July 2010. Dr. Liu Wangzhi, a holder of 1,000,000 share options, changed from an employee to a director on 12 July 2010.

- (b) The fair value of the options granted during the six month ended 31 December 2011 was calculated using binomial option pricing model. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options. The key inputs into the model were as follows:

Date of grant	26 July 2011
Number of options granted	11,250,000
Grant date share price	HK\$0.56
Exercise price	HK\$0.56
Risk-free rate	2.28%
Nature of the share options	Call
Life of the options	10 years
Expected volatility	50.30%
Expected dividend yield	0.63%

The fair value of the options at the date of grant was HK\$2,892,000. The Group recognised the total expense of HK\$1,320,000 (six months ended 31 December 2010: HK\$2,740,000) in the profit or loss for the six months ended 31 December 2011 in relation to share options granted by the Company.

19. CAPITAL COMMITMENTS

	31 December 2011 HK\$'000 (Unaudited)	30 June 2011 HK\$'000 (Audited)
Capital expenditure in respect of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	134	6
Commitment for further capital injection in an associate	32,400	32,400

20. OPERATING LEASES COMMITMENTS

At the end of the reporting period, the Group had commitments for future minimum lease payments for retail shops and warehouses under non-cancellable operating leases which fall due as follows:

	31 December 2011 HK\$'000 (Unaudited)	30 June 2011 HK\$'000 (Audited)
Within one year	49,982	44,544
In the second to fifth years inclusive	50,902	58,983
	100,884	103,527

Leases are negotiated for lease terms of 1 to 5 years.

The above lease commitments represent basic rents only and do not include contingent rents payable in respect of certain retail shops leased by the Group. In general, these contingent rents are calculated based on the relevant retail shops' turnover pursuant to the terms and conditions as set out in the respective rental agreements. It is not possible to estimate in advance the amount of such contingent rent payable.

21. PLEDGE OF ASSETS

At 31 December 2011, the Group's inventories and bank deposits with a carrying amount of HK\$427,873,000 (30 June 2011: HK\$240,269,000) and HK\$36,675,000 (30 June 2011: HK\$36,040,000), respectively, were pledged to banks as securities to obtain the banking facilities granted to subsidiaries of the Group.

22. RELATED PARTY DISCLOSURES

(a) Related party transactions

During the period, the Group has the following related party transactions:

Relationship	Nature of transactions	Six months ended 31 December	
		2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
A company owned by a non-controlling shareholder of a subsidiary	Interest expenses	—	452
A company owned by the spouse of a director of the Company	Interest expenses	—	302
A solicitors firm in which a director of the Company is a partner	Company secretariat and legal services fee	435	1,932
An associate	Management fee	—	1,978
Associates	Sales of jewellery	—	31,155

On 3 August 2010, CB2013 with principal amount of HK\$56,000,000 were issued to certain related parties of the Company as disclosed in note 15.

As at 31 December 2011, the Group had an outstanding financial guarantee issued to a bank in respect of a banking facility granted to a jointly controlled entity, which was an associate as at 30 June 2011, as disclosed in note 23.

In addition, from time to time, a related company controlled by Dr. Liu Wangzhi also acts an agent to purchase gold from Shanghai Stock Exchange on behalf of the Group. Advance made by the Group to such entity for sourcing purpose is detailed in note 11.

(b) Related party balances

Details of the Group's outstanding balances with related parties are set out on the condensed consolidated statement of financial position and in note 11.

22. RELATED PARTY DISCLOSURES-CONTINUED

(c) Compensation of key management personnel

Directors are key management personnel of the Company whose remuneration is disclosed as follows:

	Six months ended 31 December	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Fees	540	557
Salaries	9,376	7,570
Retirement benefit costs	34	24
	9,950	8,151

23. CONTINGENT LIABILITIES

As at 31 December 2011, the Group had an outstanding financial guarantee issued to a bank in respect of a banking facility granted to a jointly controlled entity, which was an associate as at 30 June 2011. The aggregate amount that could be required to be paid if the guarantee was called upon in entirety amounted to HK\$3,000,000.

The directors of the Company considered that the fair value of this financial guarantee contract at their initial recognition is insignificant.

24. EVENT AFTER THE REPORTING PERIOD

On 8 February 2012, Brand New Management Limited ("BNM"), a 100% owned subsidiary of the Company, and La Milky Way International Company Limited ("LMWI"), a jointly controlled entity of the Group, as purchasers entered into a conditional sales and purchase agreement (the "Agreement") with Ample Means Holdings Limited ("AMH"), an independent third party, as vendor. Pursuant to the Agreement, BNM and LMWI agreed to acquire from AMH a 30% and a 40% equity interest in A Stars Entertainment Group Limited ("A Stars") for a consideration of HK\$10.7 million and HK\$14.3 million, respectively ("Considerations"). In addition, the Company agreed to issue promissory notes amounting to HK\$20 million in aggregate to AMH as guarantee for payment of the Considerations.

A Stars and its subsidiaries are principally engaged in two activities: (i) television commercial and content productions and (ii) apps development.

The transaction was completed on 15 February 2012. Upon completion of the transaction, A Stars has become an associate of the Group.