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HONG KONG RESOURCES HOLDINGS COMPANY LIMITED

香港資源控股有限公司

*(Incorporated in Bermuda with limited liability
and carrying on business in Hong Kong as HKRH China Limited)*

(Stock code: 2882)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2012

The board of directors (the “**Board**”) of Hong Kong Resources Holdings Company Limited (the “**Company**”) announces the unaudited interim results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 31 December 2012 (the “**Period**”).

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31 December 2012

| | <i>Notes</i> | 6 months ended 31 December 2012 HK\$'000 (Unaudited) | 6 months ended 31 December 2011 HK\$'000 (Unaudited) |
|-------------------------------------|--------------|---|---|
| Turnover | 3 | 1,645,070 | 2,075,962 |
| Cost of sales | | (1,308,365) | (1,688,537) |
| Gross profit | | 336,705 | 387,425 |
| Other income | | 11,527 | 10,354 |
| Selling expenses | | (222,484) | (243,335) |
| General and administrative expenses | | (74,345) | (70,243) |
| Other operating expenses | | (13,431) | (9,261) |
| Profit from operations | | 37,972 | 74,940 |

| | <i>Notes</i> | 6 months ended 31 December 2012 HK\$'000 (Unaudited) | 6 months ended 31 December 2011 HK\$'000 (Unaudited) |
|---|--------------|---|---|
| Change in fair value of derivatives embedded in convertible bonds | | 428 | 760 |
| Finance costs | 4 | (32,424) | (31,415) |
| Share of results of associates | | (1,673) | (1,477) |
| Share of results of jointly controlled entities | | (3,158) | (1,411) |
| Profit before taxation | 5 | 1,145 | 41,397 |
| Taxation | 6 | (18,236) | (19,275) |
| (Loss) profit for the period | | (17,091) | 22,122 |
| Other comprehensive income: | | | |
| Item that may be reclassified subsequently to profit or loss: | | | |
| Exchange difference arising on translation | | 9,036 | 8,673 |
| Total comprehensive (expense) income for the period | | (8,055) | 30,795 |
| (Loss) profit for the period attributable to: | | | |
| Owners of the Company | | (17,091) | 22,122 |
| Non-controlling interests | | — | — |
| | | (17,091) | 22,122 |
| Total comprehensive (expense) income for the period attributable to: | | | |
| Owners of the Company | | (8,055) | 30,795 |
| Non-controlling interests | | — | — |
| | | (8,055) | 30,795 |
| | | | (Restated) |
| (Loss) earnings per ordinary share | 8 | | |
| Basic | | (HK\$0.008) | HK\$0.010 |
| Diluted | | (HK\$0.008) | HK\$0.010 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

| | <i>Notes</i> | 31 December 2012 HK\$'000 (Unaudited) | 30 June 2012 HK\$'000 (Audited) |
|--|--------------|--|--|
| ASSETS AND LIABILITIES | | | |
| Non-current assets | | | |
| Property, plant and equipment | | 80,966 | 76,723 |
| Deposits for acquisition of property, plant and equipment | | 2,897 | 8,410 |
| Other receivable and deposits paid | <i>9</i> | 22,537 | 8,516 |
| Intangible assets | | 171,186 | 171,186 |
| Interests in associates | | 7,587 | 9,260 |
| Interests in jointly controlled entities | | 3,379 | 3,752 |
| | | <hr/> 288,552 | <hr/> 277,847 |
| Current assets | | | |
| Inventories | | 1,158,215 | 972,429 |
| Trade and other receivables and deposits paid | <i>9</i> | 309,871 | 338,041 |
| Amount due from a jointly controlled entity | | 5,583 | 17,438 |
| Financial assets at fair value through profit or loss | <i>10</i> | – | 2,065 |
| Tax recoverable | | 19,829 | 8,742 |
| Pledged bank deposits | | 263,360 | 60,182 |
| Bank balances and cash | | 59,632 | 161,614 |
| | | <hr/> 1,816,490 | <hr/> 1,560,511 |
| Current liabilities | | | |
| Trade and other payables, accruals and deposits received | <i>11</i> | 455,071 | 366,819 |
| Derivative financial instruments | <i>12</i> | – | 428 |
| Financial liabilities at fair value through profit or loss | <i>10</i> | 1,288 | – |
| Convertible bonds | <i>12</i> | 214,627 | 150,898 |
| Obligations under finance leases | | 904 | 541 |
| Bank and other borrowings | | 555,471 | 350,956 |
| Gold loans | <i>13</i> | 223,089 | 97,613 |
| Tax liabilities | | 13,321 | 7,349 |
| | | <hr/> 1,463,771 | <hr/> 974,604 |

| | | 31 December | 30 June |
|--|--------------|--------------------|------------------|
| | | 2012 | 2012 |
| | <i>Notes</i> | HK\$'000 | HK\$'000 |
| | | (Unaudited) | (Audited) |
| Net current assets | | 352,719 | 585,907 |
| Total assets less current liabilities | | 641,271 | 863,754 |
| Non-current liabilities | | | |
| Bank and other borrowings | | 22,500 | 30,000 |
| Convertible bonds | <i>12</i> | – | 206,056 |
| Deferred tax liabilities | | 39,854 | 41,063 |
| | | 62,354 | 277,119 |
| NET ASSETS | | 578,917 | 586,635 |
| CAPITAL AND RESERVES | | | |
| Share capital | | 19,696 | 19,696 |
| Reserves | | 559,219 | 566,939 |
| Equity attributable to owners of the Company | | 578,915 | 586,635 |
| Non-controlling interests | | 2 | – |
| TOTAL EQUITY | | 578,917 | 586,635 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2012

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (“**HKAS 34**”) *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

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.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 31 December 2012 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 30 June 2012.

Application of amendments to Hong Kong Financial Reporting Standards

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the HKICPA.

| | |
|-----------------------|---|
| Amendments to HKFRS 7 | Disclosure – Transfer of Financial Assets |
| Amendments to HKAS 1 | Presentation of Items of Other Comprehensive Income |
| Amendments to HKAS 12 | Deferred Tax: Recovery of Underlying Assets |

Except as described below, the application of the other amendments to 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.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income* introduce new terminology for the statement of comprehensive income. Under the amendments to HKAS 1, a ‘statement of comprehensive income’ is renamed as a ‘statement of profit or loss and other comprehensive income’. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

In addition, the Group has applied the following accounting policy for business combinations in the current interim period.

Business combinations

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

3. TURNOVER AND SEGMENT INFORMATION

(a) Turnover

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

| | 6 months ended 31 December 2012 HK\$'000 (Unaudited) | 6 months ended 31 December 2011 HK\$'000 (Unaudited) |
|------------------|---|---|
| Sales of goods | 1,627,389 | 2,058,033 |
| Franchise income | 17,681 | 17,929 |
| | <hr/> 1,645,070 <hr/> | <hr/> 2,075,962 <hr/> |

(b) Segment Information

Information reported to the executive directors of the Company, being the chief operating decision makers, for the purposes of resource allocation and assessment of segment performance focuses on types of goods and geographical location. This is the basis upon which the Group is organised.

Specifically, the Group's operating and reportable segments under HKFRS 8 *Operating Segments* are as follows:

- a. Retail and franchising operations for selling gold and jewellery products in Mainland China;
- b. Retail operations for selling gold and jewellery products in Hong Kong and Macau.

Major products of the Group include gold products, jewellery products and other precious metal products.

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 2012 (Unaudited)

| | Reportable segment | | | Others (note) | Consolidated |
|---|---|---|------------------|------------------|------------------|
| | Retail and franchising operations for selling gold and jewellery products in Mainland China | Retail operations for selling gold and jewellery products in Hong Kong & Macau | Total | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| REVENUE | | | | | |
| External sales | <u>1,504,661</u> | <u>128,390</u> | <u>1,633,051</u> | <u>12,019</u> | <u>1,645,070</u> |
| RESULT | | | | | |
| Segment results | <u>95,273</u> | <u>6,126</u> | <u>101,399</u> | <u>(2,839)</u> | <u>98,560</u> |
| Other income | | | | | 11,527 |
| Unallocated staff related expenses | | | | | (23,892) |
| Other unallocated corporate expenses | | | | | (21,895) |
| Advertising, promotion and business development expenses | | | | | (26,328) |
| Change in fair value of derivatives embedded in convertible bonds | | | | | 428 |
| Finance costs | | | | | (32,424) |
| Share of results of associates | | | | | (1,673) |
| Share of results of jointly controlled entities | | | | | (3,158) |
| Profit before taxation | | | | | 1,145 |
| Taxation | | | | | (18,236) |
| Loss for the period | | | | | <u>(17,091)</u> |

For the six months ended 31 December 2011 (Unaudited)

| | Reportable segment | | | | Consolidated <i>HK\$'000</i> |
|---|--|--|--------------------------|-------------------------------------|---------------------------------|
| | Retail and franchising operations for selling gold and jewellery products in Mainland China <i>HK\$'000</i> | Retail operations for selling gold and jewellery products in Hong Kong & Macau <i>HK\$'000</i> | Total <i>HK\$'000</i> | Others (note) <i>HK\$'000</i> | |
| REVENUE | | | | | |
| External sales | 1,886,711 | 188,648 | 2,075,359 | 603 | 2,075,962 |
| RESULT | | | | | |
| Segment results | 124,705 | 10,057 | 134,762 | (2,168) | 132,594 |
| Other income | | | | | 10,354 |
| Unallocated staff related expenses | | | | | (22,293) |
| Other unallocated corporate expenses | | | | | (15,919) |
| Advertising, promotion and business development expenses | | | | | (29,796) |
| Change in fair value of derivatives embedded in convertible bonds | | | | | 760 |
| 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 |

Segment profit represents the profit earned by each segment without allocation of other income, central administration costs, marketing and promotion expenses, corporate staff and directors' salaries, change in fair value of derivatives embedded in convertible bonds, finance costs, share of results of associates and jointly controlled entities and taxation. This is the measure reported to the chief operating decision makers 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, wholesale of diamonds in the PRC, online marketing and e-commerce.

4. FINANCE COSTS

| | 6 months ended 31 December 2012 HK\$'000 (Unaudited) | 6 months ended 31 December 2011 HK\$'000 (Unaudited) |
|--|---|---|
| Interests on: | | |
| Bank borrowings wholly repayable within 5 years | 11,094 | 8,795 |
| Gold loans | 5,551 | 1,871 |
| Obligations under finance leases | 27 | 21 |
| Other finance costs | 211 | 134 |
| Effective interest on convertible bonds (note 12(i)) | 15,541 | 20,594 |
| | <u>32,424</u> | <u>31,415</u> |

5. PROFIT BEFORE TAXATION

| | 6 months ended 31 December 2012 HK\$'000 (Unaudited) | 6 months ended 31 December 2011 HK\$'000 (Unaudited) |
|--|---|---|
| Profit before taxation has been arrived at after charging (crediting): | | |
| Advertising, promotion and business development expenses | 26,328 | 29,796 |
| Change in fair value of gold loans | (634) | (2,544) |
| Change in fair value of financial assets/liabilities at fair value through profit or loss | (4,855) | 6,594 |
| Cost of inventories recognised as an expense | 1,313,854 | 1,684,487 |
| Depreciation of property, plant and equipment | 11,911 | 10,546 |
| Equity-settled share-based payments | 335 | 1,320 |
| Exchange gain, net | (6,975) | (6,450) |
| Loss on disposal of property, plant and equipment | 1,701 | – |
| Impairment losses on other receivables | 1,415 | – |
| Interest income | (1,412) | (1,831) |
| Operating lease rentals | | |
| – contingent rental | 81,952 | 96,656 |
| – minimum lease payments | 24,956 | 24,970 |
| | <u>24,956</u> | <u>24,970</u> |

6. TAXATION

| | 6 months ended 31 December 2012 HK\$'000 (Unaudited) | 6 months ended 31 December 2011 HK\$'000 (Unaudited) |
|---------------------------|---|---|
| Current tax: | | |
| Hong Kong Profits Tax | 739 | 4,018 |
| PRC Enterprise Income Tax | 18,706 | 16,758 |
| Macau Complementary Tax | – | 119 |
| | <hr/> | <hr/> |
| | 19,445 | 20,895 |
| Deferred taxation | (1,209) | (1,620) |
| | <hr/> | <hr/> |
| | 18,236 | 19,275 |
| | <hr/> <hr/> | <hr/> <hr/> |

Hong Kong Profits Tax is calculated at 16.5% (6 months ended 31 December 2011: 16.5%) on the estimated assessable profits for the period.

Pursuant to the Enterprise Income Tax Law and Implementation Rules of the PRC, a subsidiary of the Company established in the PRC is subject to an income tax rate of 25% (6 months ended 31 December 2011: a preferential income tax rate of 24%) during the period. According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guoshuifa [2007] No. 39), the tax rate of the entity that previously enjoyed the tax preferential treatment is increased progressively to 25% over a five-year period up to 2012.

In addition, according to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion With Respect to Taxes on Income, royalties derived by a subsidiary of the Group incorporated in Hong Kong is entitled to a reduced withholding PRC Enterprise Income Tax at 7% provided that it is the “beneficial owner” of the payment as required under Guoshuihan [2009] No. 601.

No provision for the Macau Complementary Tax has been made as the Group has no assessable profit in Macau for the current period. The Macau Complementary Tax was calculated progressively at rates ranging from 9% to 12% of the estimated assessable profit for the prior period.

7. DIVIDENDS

| 6 months ended 31 December 2012 HK\$'000 (Unaudited) | 6 months ended 31 December 2011 HK\$'000 (Unaudited) |
|---|---|
|---|---|

Dividends recognised as distribution during the period:

Ordinary shares

Final dividend paid for the fifteen months ended 30 June 2011
of HK0.20 cent per share

– 3,938

Preference shares

Final dividend paid for the fifteen months ended 30 June 2011
of HK0.875 cent per share

– 4

– 3,942

The Board has resolved not to declare an interim dividend in respect of the 6 months ended 31 December 2012 to the holders of both ordinary shares and preference shares of the Company.

8. (LOSS) EARNINGS PER ORDINARY SHARE

| | 6 months ended 31 December 2012 HK\$'000 (Unaudited) | 6 months ended 31 December 2011 HK\$'000 (Unaudited) |
|---|---|---|
| (Loss) earnings: | | |
| (Loss) profit for the period attributable to owners of the Company | (17,091) | 22,122 |
| Dividends on preference shares | (4) | (1) |
| | <hr/> | <hr/> |
| (Loss) profit for the period attributable to owners of the Company for the purpose of basic (loss) earnings per ordinary share | (17,095) | 22,121 |
| Effect of dilutive potential ordinary shares: | | |
| Dividends on preference shares | – | 1 |
| | <hr/> | <hr/> |
| (Loss) profit for the period attributable to owners of the Company for the purpose of diluted (loss) earnings per ordinary share | (17,095) | 22,122 |
| | <hr/> <hr/> | <hr/> <hr/> |
| | Number of '000 (Unaudited) | Number of '000 (Unaudited) (Restated) |
| Number of shares: | | |
| Weighted average number of ordinary shares for the purpose of basic (loss) earnings per ordinary share | 2,273,298 | 2,273,298 |
| Effect of dilutive potential ordinary shares: | | |
| Preference shares | – | 470 |
| | <hr/> | <hr/> |
| Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per ordinary share | 2,273,298 | 2,273,768 |
| | <hr/> <hr/> | <hr/> <hr/> |

Note:

The weighted average number of ordinary shares for the purposes of calculating basic and diluted earnings per ordinary share for the 6 months ended 31 December 2012 and 31 December 2011 had been adjusted for the effect of bonus element in connection with rights issue as set out in note 17(a).

The computation of diluted loss per ordinary share for the 6 months ended 31 December 2012 did not assume the exercise of the share options because their exercise price is higher than the average share price. In addition, the computation did not assume the conversion of the Company's outstanding convertible bonds and the preference shares since their conversion would result in a decrease in loss per ordinary share for the 6 months ended 31 December 2012.

The computation of diluted earnings per ordinary share for the 6 months ended 31 December 2011 did not assume the exercise of the share options because their exercise price is higher than the average share price. In addition, the computation did not assume the conversion of the Company's outstanding convertible bonds since their conversion would result in an increase in profit per ordinary share for the 6 months ended 31 December 2011.

9. TRADE AND OTHER RECEIVABLES AND DEPOSITS PAID

| | 31 December 2012 HK\$'000 (Unaudited) | 30 June 2012 HK\$'000 (Audited) |
|---|--|--|
| Non-current other receivable and deposits paid: | | |
| Rental and utility deposits | 8,251 | 8,516 |
| Other receivable from a jointly controlled entity | 14,286 | – |
| | 22,537 | 8,516 |
| Current trade and other receivables and deposits paid comprise: | | |
| Trade receivables | 228,059 | 275,259 |
| Other receivables and deposits paid | 81,812 | 62,782 |
| | 309,871 | 338,041 |

Retail sales are usually made in cash, through credit cards or through reputable and dispersed department stores. The Group generally allows a credit period of 30 to 90 days to its debtors.

Included in trade receivables at 31 December 2012 are trade receivables from jointly controlled entities amounting to HK\$4,427,000 (30 June 2012: HK\$4,345,000). Included in trade receivables at 30 June 2012 were trade receivables from associates amounting to HK\$13,937,000.

Included in current other receivables at 31 December 2012 are other receivables from an associate amounting to HK\$4,150,000 (30 June 2012: HK\$3,647,000).

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 2012 HK\$'000 (Unaudited) | 30 June 2012 HK\$'000 (Audited) |
|--------------|--|--|
| 0 – 30 days | 175,791 | 225,271 |
| 31 – 60 days | 7,914 | 27,858 |
| 61 – 90 days | 5,307 | 2,496 |
| Over 90 days | 39,047 | 19,634 |
| | <u>228,059</u> | <u>275,259</u> |

10. FINANCIAL ASSETS/LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets/liabilities at fair value through profit or loss comprise:

| | 31 December 2012 HK\$'000 (Unaudited) | 30 June 2012 HK\$'000 (Audited) |
|--|--|--|
| Gold bullion contracts through margin account (note a) | (468) | 2,065 |
| Bullion forward contracts (note b) | (820) | – |
| | <u>(1,288)</u> | <u>2,065</u> |

Analysed for reporting purposes as:

| | | |
|---------------------|----------------|--------------|
| Current assets | – | 2,065 |
| Current liabilities | (1,288) | – |
| | <u>(1,288)</u> | <u>2,065</u> |

Notes:

- (a) The amount represented the fair value of the open position of gold bullion contracts through margin account with an aggregated notional value of USD300,000 (30 June 2012: USD6,299,000). The contracts contain terms enabling the Group either to take delivery of the gold bullion or closing out the position and setting 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.
- (b) During the current period, the Group uses bullion forward contracts to reduce its exposure to fluctuations in the gold prices. The Group does not currently designate any hedging relationship on the bullion forward contracts for the purpose of hedge accounting.

The bullion forward contracts are measured at fair value at the end of the reporting period. The fair values are determined based on the quoted market prices at the end of the reporting period. The total notional value of the outstanding bullion forward contracts as at 31 December 2012 amounted to USD28,779,000 which have maturity period up to 6 to 12 months since date of inception.

11. TRADE AND OTHER PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

| | 31 December 2012 HK\$'000 (Unaudited) | 30 June 2012 HK\$'000 (Audited) |
|---|--|--|
| Trade payables | 164,814 | 74,892 |
| Deposits received from customers (note a) | 69,076 | 103,807 |
| Franchisee guarantee deposits (note b) | 57,831 | 49,198 |
| Other payables, accruals and other deposits | 163,350 | 138,922 |
| | <u>455,071</u> | <u>366,819</u> |

Notes:

- (a) Deposits received from customers represent deposits and receipts in advance from the franchisees and customers for sales 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 2012 HK\$'000 (Unaudited) | 30 June 2012 HK\$'000 (Audited) |
|--------------|--|--|
| 0 – 30 days | 130,047 | 53,154 |
| 31 – 60 days | 22,986 | 9,537 |
| 61 – 90 days | 4,416 | 2,477 |
| Over 90 days | 7,365 | 9,724 |
| | <u>164,814</u> | <u>74,892</u> |

12. CONVERTIBLE BONDS

(i) Convertible bonds

During the current period, the Company redeemed the convertible bonds due 2012 (“CB 2012”) at HK\$151,800,000, representing 110% of the outstanding principal amount on maturity date of 2 August 2012 in accordance with the term of the relevant subscription agreement for the issue of CB 2012.

The movement of the liability component of the CB 2012 and convertible bonds due 2013 (“CB 2013”) for both periods are set out as below:

| | Liability component | | |
|--|----------------------------|-----------------------------|------------------|
| | CB 2012 | CB 2013 | Total |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| At 1 July 2012 (audited) | 150,898 | 206,056 | 356,954 |
| Coupon interest accrued at 1 July 2012 and included in other payables | 2,836 | 3,225 | 6,061 |
| Interest charged during the period | 1,525 | 14,016 | 15,541 |
| Repayment of principal | (151,800) | – | (151,800) |
| Payment of coupon interest | (3,459) | (5,445) | (8,904) |
| Coupon interest accrued at 31 December 2012 and included in other payables | – | (3,225) | (3,225) |
| At 31 December 2012 (unaudited) | – | 214,627 | 214,627 |
| | | 31 December 2012 | 30 June 2012 |
| | | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | | <i>(Unaudited)</i> | <i>(Audited)</i> |
| Analysed for reporting purpose as: | | | |
| Current liabilities | | 214,627 | 150,898 |
| Non-current liabilities | | – | 206,056 |
| | | 214,627 | 356,954 |
| | | Liability component | |
| | CB 2012 | CB 2013 | Total |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| 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 at 31 December 2011 and included in other payables | (2,874) | (3,225) | (6,099) |
| At 31 December 2011 (unaudited) | 145,819 | 198,384 | 344,203 |

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

(ii) Derivative financial instruments

| | Embedded derivatives | | |
|---------------------------------|-----------------------------|-----------------|-----------------|
| | CB 2012 | CB 2013 | Total |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| At 1 July 2012 (audited) | – | 428 | 428 |
| Change in fair value | – | (428) | (428) |
| At 31 December 2012 (unaudited) | – | – | – |

| | Embedded derivatives | | |
|---------------------------------|-----------------------------|-----------------|-----------------|
| | CB 2012 | CB 2013 | Total |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| At 1 July 2011 (audited) | 23 | 1,547 | 1,570 |
| Change in fair value | 93 | (853) | (760) |
| At 31 December 2011 (unaudited) | 116 | 694 | 810 |

The fair values of the derivatives embedded in CB 2012 at 31 December 2011 and at 30 June 2012 and the fair values of the derivatives embedded in CB 2013 at 31 December 2011, at 30 June 2012 and at 31 December 2012 are based on valuation carried out on those dates by an independent valuer. The change in fair value of HK\$428,000 (6 months ended 30 June 2011: HK\$760,000) has been credited to profit or loss for the 6 months ended 31 December 2012.

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 31 December 2011 | At 30 June 2012 | At 31 December 2012 |
|-------------------------|------------------------------------|--------------------------------|------------------------------------|
| CB 2012 | | | |
| Share price | HK\$0.44 | HK\$0.42 | N/A |
| Exercise price | HK\$1.58 | HK\$1.58 | N/A |
| Expected dividend yield | 0.45% | 0.48% | N/A |
| Volatility | 80.35% | 66.81% | N/A |
| | <u> </u> | <u> </u> | <u> </u> |
| | | | |
| | At 31 December 2011 | At 30 June 2012 | At 31 December 2012 |
| CB 2013 | | | |
| Share price | HK\$0.44 | HK\$0.42 | HK\$0.27 |
| Exercise price | HK\$1.58 | HK\$1.58 | HK\$1.58 |
| Expected dividend yield | 0.45% | 0.48% | 0.00% |
| Volatility | 57.77% | 63.70% | 48.80% |
| | <u> </u> | <u> </u> | <u> </u> |

13. GOLD LOANS

Gold loans are borrowed to reduce the impact on fluctuations in gold prices on gold inventories, and were designated as financial liabilities at fair value through profit or loss.

As at 31 December 2012 and 30 June 2012, the gold loans are denominated in Renminbi, interest bearing at fixed rates ranging from 4.8% to 5.1% (30 June 2012: 4.8%) per annum with original maturity of 12 months, and secured by inventories with a carrying amount of HK\$435,594,000 (30 June 2012: HK\$427,559,000).

The gain arising from change in fair value of gold loans of HK\$634,000 (6 months ended 31 December 2011: HK\$2,544,000) has been recognised in the profit or loss for the period. Fair values of the gold loans have been determined by reference to the quoted bid prices of gold on the Shanghai Gold Exchange at the end of reporting period.

14. CAPITAL COMMITMENTS

| | 31 December 2012 HK\$'000 (Unaudited) | 30 June 2012 HK\$'000 (Audited) |
|--|--|--|
| Capital expenditure in respect of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements | 4,770 | 7,522 |
| Commitment for further capital injection in an associate | — | 32,400 |
| | <u>4,770</u> | <u>32,400</u> |

15. PLEDGE OF ASSETS

At 31 December 2012, the Group's inventories and bank deposits with a carrying amount of HK\$435,594,000 (30 June 2012: HK\$427,559,000) and HK\$263,360,000 (30 June 2012: HK\$60,182,000), respectively were pledged to banks as securities to obtain the banking facilities granted to subsidiaries of the Group.

16. CONTINGENT LIABILITIES

As at 31 December 2012, the Group had an outstanding financial guarantee amounting to HK\$3,000,000 (30 June 2012: HK\$3,000,000) issued to a bank in respect of a banking facility granted to a jointly controlled entity.

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

17. EVENTS AFTER THE REPORTING PERIOD

(a) Rights issue and bonus warrants

On 30 January 2013, the Company issued 787,634,411 ordinary shares of the Company (the “**Rights Shares**”) on the basis of 2 Rights Shares for every 5 ordinary shares of the Company held on 8 January 2013 at a subscription price of HK\$0.15 per share (the “**Rights Issue**”). The gross proceed of the Rights Issue amounted to HK\$118,145,000.

The Rights Issue also includes the issue of the bonus warrants (the “**Bonus Warrants**”) on the basis of 1 Bonus Warrant for every 4 Rights Shares taken up under the Rights Issue. On the basis of 787,634,411 Rights Shares, the total number of Bonus Warrants issued was 196,908,602. Each of the Bonus Warrants entitles the holder(s) thereof to subscribe for 1 ordinary share of the Company at the exercise price of HK\$0.245 per share (subject to adjustments), at any time between the date of issue of the Bonus Warrants on 30 January 2013 and the date immediately preceding the date which is 5 years after the date of issue of the Bonus Warrants.

Dealings in the Rights Shares and Bonus Warrants were commenced on The Stock Exchange of Hong Kong Limited on 1 February 2013.

As a result of the Rights Issue, (i) the conversion price and/or the number of shares falling to be issued upon exercise of the conversion rights attaching to the outstanding convertible preference shares and the outstanding CB2013 have been adjusted in accordance with the respective instrument creating each of them; and (ii) the exercise prices and number of the options have been adjusted in accordance with the share option scheme.

As at 30 January 2013, the aggregate number of outstanding convertible preference shares is 403,374. Before the Rights Issue, 1 convertible preference share shall be convertible into 1 ordinary share. As a result of the Rights Issue, the conversion multiple was adjusted to 1.16338.

As at 30 January 2013, the principal amount of the outstanding CB2013 was HK\$216,000,000. As a result of the Rights Issue, the conversion price was adjusted from the initial conversion price of HK\$1.58 per ordinary share to HK\$1.37 per ordinary share.

As at 30 January 2013, the aggregate number of outstanding share options is 36,421,580. As a result of the Rights Issue, the aggregate number of outstanding share options was adjusted to 43,372,145.

(b) Grant of share options

On 25 January 2013, the board resolved to grant 184,200,000 share options to certain directors, shareholders, management and senior management member of the Company to subscribe for ordinary shares under the share option scheme of the Company. Of the 184,200,000 share options, 90,000,000 share options were to be granted to Dr. Wong, Kennedy Ying Ho (“**Dr. Wong**”), Chairman and a substantial shareholder of the Company, and 30,000,000 share options were to be granted to Mr. Wen Jialong (“**Mr. Wen**”), a substantial shareholder of the Company. The grant of options to each Dr. Wong and Mr. Wen was conditional on the approval of independent shareholders being obtained at the special general meeting of the Company to be convened. At the special general meeting of the Company held on 27 February 2013, the grant of 30,000,000 share options to Mr. Wen was approved and the grant of 90,000,000 share options to Dr. Wong was withdrawn and not voted upon.

The share options granted by the Company on 25 January 2013, being after the record date of Rights Issue, 8 January 2013, were not subject to the adjustment as a result of the Rights Issue.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Group is principally engaged in retailing and franchising operations for selling gold and jewellery products in Hong Kong, Macau and other regions (“**Mainland China**”) in the People’s Republic of China (the “**PRC**”).

For the Period, the Group has recorded a turnover of HK\$1,645 million, representing a decrease of 21% as compared to the turnover of HK\$2,076 million for the 6 months ended 31 December 2011 (the “**Last Period**”). The profit from operations of HK\$38 million for the Period decreased 49% as compared to HK\$75 million for the Last Period. The Group has recorded a loss attributable to shareholders of HK\$17 million for the Period, as compared to a profit of HK\$22 million for the Last Period.

Sales from retailing and franchising of gold and jewellery products in Mainland China have continued to be the major source of income. The turnover from Mainland China of HK\$1,505 million, has decreased 20% from that of the Last Period, while that from Hong Kong and Macau has recorded HK\$128 million, a decrease of 32% from that of the Last Period. Mainland China has continued to be the major source of revenue for our Group, accounting for over 90% of the Group’s turnover. The Hong Kong and Macau markets have recorded same-store-growth of -25% whereas that in the Mainland China was -32%.

Sales of our principal products, gold products and gem-set jewellery, consisted of 66% (Last Period: 70%) and 18% (Last Period: 16%), respectively of total turnover. The gross profit decreased 13% to HK\$337 million (Last Period: HK\$387 million) while the gross profit margin increased from 19% to 20%.

The increase in the Group’s overall gross profit margin mainly reflected the hedging policy adopted by the Group’s future gold positions. As at 31 December 2012, 34% of the gold inventory position was hedged. The management will continue to monitor the hedging position in the 2012/2013 financial year. The Group will also increase the proportion of revenue from gem-set jewellery sales, which will yield a higher margin than the sales of gold jewellery. Hedging the Group’s position of gold, and changing our product portfolio to emphasis gem-sets will reduce the impact of fluctuations in international gold prices on the gross profit margin of the Group.

In line with the turnover growth, the Group's selling and distribution expenses have decreased to HK\$222 million (Last Period: HK\$243 million). Further, the Group's administrative expenses have increased to HK\$74 million (Last Period: HK\$70 million). The Group will continue to adopt cost control policy and gain efficiency from economies of scale.

The Group will continue to focus its resources on capturing the expanding market in Mainland China. Together with effective cost control measures as stated above, management expects the result of the Group to improve.

INTERIM DIVIDEND

The Board has resolved not to recommend an interim dividend in respect of the 6 months ended 31 December 2012 to the holders of both ordinary shares and preference shares of the Company.

BUSINESS REVIEW AND PROSPECTS

Retail Operation

The Group's five-year strategic plan has stayed on track, particularly in line with the expansion plan for Mainland China. Overall turnover from the Hong Kong and Macau retail operations has reached HK\$128 million (Last Period: HK\$189 million) and HK\$1,505 million (Last Period: HK\$1,887 million) from the Mainland China operations. The decrease in turnover for the Period was mainly due to the worsening of the market conditions and business environment in the Mainland China as compared to the Last Period.

As at 31 December 2012, the Group has 7 points-of-sale in Hong Kong, 3 points-of-sale in Macau and 422 points-of-sale in Mainland China under the brandname "3D-GOLD", plus 7 points-of-sale in Hong Kong, 2 points-of-sale in Macau and 22 points-of-sale in Mainland China under the brandname "La Milky Way" (of which 27 points-of-sale are situated in 3D-GOLD jewellery shops). Of the points-of-sale in Mainland China, 133 are self-operated points-of-sale and 290 are franchise points-of-sale. During the Period, 67 new shops and counters have opened in Hong Kong, Macau and Mainland China and 33 loss making stores were closed.

Over 90% of our self-operated points-of-sale are located at department stores in Mainland China at prime shopping districts and are subject to turnover rent. The Hong Kong and Macau operations are, on the other hand, subject to fixed rentals.

Our strategy in Mainland China is to focus on the growth of franchisee stores, with a target of 30% self-operated stores and 70% franchise stores in the long run. Our model gives us the option to leverage on the capital, local knowledge and premises of our franchisees: a flexible and fast roll out strategy that requires minimal capital outlay from the Group. Our model enables the management to make critical decisions at times of market changes with minimal adverse impact on the Group.

The opening, renewal and closing of our points-of-sales in Hong Kong, Macau, and Mainland China will be reviewed continually to ensure consistence with our overall business plan and strategies. Our growth plans will be continuously adjusted, based on the financial returns, marketing benefits and strategic advantages. Prospectively, the Mainland China market will remain the key growth driver in the future.

The Group has a solid infrastructure with the 3D-GOLD's operations headquarters in Shenzhen and regional offices in key cities in Mainland China: Beijing, Guangzhou, Jinan, Shanghai and Wuhan. The Group is confident of its strategy of expanding the retail network and business in Mainland China.

The Group remains optimistic about the long term development of the economy in Mainland China and expects its ability to capture the potential growth of the economy.

E-Commerce and Corporate Gifts

To further broaden the sales channel, the Group has launched an e-commerce platform “Zun1” (www.zun1.com) to capture the high ground in the fast emerging cyber market for consumer goods in Greater China and other regions. This initiative should generate positive returns to the Group in the future.

Discerning the promising market potential and increasing popularity of corporate gifts in China, the Group has expanded into the corporate gift market, while fulfilling the strategic plan for our main-line retail operation.

Brand Recognition and Marketing Programme

During the Period, besides the regular marketing activities, The Group has sponsored a wide range of events: the Title Sponsor of the “3D-GOLD Cup Super League 2012”, Prize Sponsor of the “International KamCha Competition 2012 (HK Style Milk Tea)”, Prize Sponsor of the “McDonald's Monopoly 2012”. Our effort in brand promotion has again won recognition by the World Brand Lab: with a ranking of 167th among China Top 500 Most Valuable Brands 2012 and 2nd in the category of jewellery brands, with a brand value of RMB 9.3 billion.

In addition, in February 2013, the Brand 3D-GOLD has won the recognition of Hong Kong Top Brand Ten Year Achievement Award granted by Hong Kong Brand Development Council and The Chinese Manufacturers' Association of Hong Kong.

Products and Awards

Our Product Design and Development Department is committed to creating jewellery designs of style and taste for customers. The brand 3D-GOLD has underscored our innovative leadership in fine jewellery by garnering four awards, the most honours of any participant, at the “13th Buyers' Favorite Jewelry Design Competition 2012” organised by Hong Kong Jewelry Manufacturers' Association. The crowning achievement was the Best Craftsmanship Award, complemented by the Champion of the Bangle & Bracelet category and the 1st Runner Up in both the Earrings and Computer Aided Design categories.

Prospects

With over 90% of the turnover from Mainland China, the Group remains confident of the growth of the gold and jewellery retail market for 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 spreading our growing reputation for product design, quality, value and authenticity.

Looking ahead, we remain confident that enlarging our portfolio to include higher profit margin products: collection offerings, designer collections, gem-set jewellery and watches, the Group will also refine the hedging policy, strengthening cost control and optimizing the capital structure, for improving the results of the Group. We will also constantly strengthen our customer loyalty program to more effectively promote our high value products.

The Group will continue to develop closer relations with strategic investors and business associates or partners in the industry. Closer relations with these groups will enable the Group to leverage on resources and strengths of partners to garner larger market shares in both Hong Kong and Mainland China.

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 2012, the Group had total cash and cash equivalents amounting to HK\$323 million (30 June 2012: HK\$222 million) whilst total net assets were HK\$579 million (30 June 2012: HK\$587 million). The Group's net gearing ratio as at 31 December 2012 was 120% (30 June 2012: 105%), being a ratio of total borrowing of HK\$1,017 million (30 June 2012: HK\$836 million) less pledged bank deposits and bank balances and cash of HK\$323 million (30 June 2012: HK\$222 million) to total equity of HK\$579 million (30 June 2012: HK\$587 million). After taking into account the gold inventories of HK\$595 million (30 June 2012: HK\$474 million), the Group's adjusted net gearing ratio as at 31 December 2012 was 17% (30 June 2012: 24%), being a ratio of total borrowing less pledged bank deposits, bank balances and cash and gold inventories to total equity. As at 31 December 2012, the Group has available unutilized revolving banking facilities of HK\$18 million (30 June 2012: HK\$30 million).

In improving the Group's liquidity for business expansion, on 30 January 2013, the Company issued 787,634,411 ordinary shares of the Company (the "**Rights Shares**") on the basis of 2 Rights Shares for every 5 ordinary shares of the Company held on 8 January 2013 at a subscription price of HK\$0.15 per share (the "**Rights Issue**"). The gross proceed of the Rights Issue amounted to HK\$118 million.

Capital Commitments and Contingent Liabilities

Capital commitments and contingent liabilities of the Group as at 31 December 2012 are set out in notes 14 and 16.

Pledge of Assets

Pledge of assets of the Group as at 31 December 2012 is set out in note 15.

Financial Risk and Exposure

Except for the financial derivatives set out in notes 10, 12 and 13, the Group did not have any outstanding material foreign exchange contracts, interest or currency swaps, or other financial derivatives as at 31 December 2012.

Employees and Remuneration Policy

As at 31 December 2012, the Group had 2,452 employees (30 June 2012: 2,516). 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.

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 PROVISIONS ON CORPORATE GOVERNANCE CODE

The Company's code on corporate governance practices was adopted with reference to the code provisions on Corporate Governance Code and Corporate Governance Report (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

The Company principally complied with the CG Code throughout the Period, except for the following deviations:

CG Code A.2.1 stipulates that the roles of chairman and chief executive 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". The Board is of the view that currently vesting the roles of chairman and chief executive 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.

CG Code A.4.1 stipulates that the non-executive directors should be appointed for a specific term, 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 CG Code.

CG Code E.1.3 stipulates that the issuer should arrange for the notice to shareholders to be sent for annual general meeting at least 20 clear business days before the meeting. The Company, in accordance with the requirements of its bye-laws and Section 114 of the Companies Ordinance, gave 21 clear days (or 16 clear business days) notice to the shareholders of the Company before the convening of the annual general meeting held on 7 November 2012. The Company will ensure its compliance with CG Code in the future.

The current corporate governance practices of the Company will be reviewed and updated in a timely manner in order to comply with the Listing Rules.

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 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 Engagement 2410 “*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*”.

As at the date of this announcement, the Audit Committee comprises three independent non-executive directors, namely, Ms. Estella Yi Kum Ng, Mr. Fan, Anthony Ren Da, Mr. Wong Kam Wing and a non-executive director, Dr. Hui Ho Ming, Herbert.

PUBLICATION OF INTERIM RESULTS AND DESPATCH OF INTERIM REPORT

This results announcement is published on the websites of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk) and the Company (www.hkrh.hk). The interim report 2012 containing all the information required by the Listing Rules will be dispatched to the Company's shareholders and available on the above websites in due course.

By order of the Board of
Hong Kong Resources Holdings Company Limited
Dr. Wong, Kennedy Ying Ho, BBS, J.P.
Chairman

Hong Kong, 28 February 2013

As at the date of this announcement, the Board comprises Dr. Wong, Kennedy Ying Ho, BBS, J.P., Mr. Lam Kwok Hing, Wilfred J.P., Ms. Wong Wing Yan, Ella and Mr. Cheung Pak To, Patrick, BBS as executive directors, Dr. Hui Ho Ming, Herbert, J.P. as non-executive director and Mr. Fan, Anthony Ren Da, Ms. Estella Yi Kum Ng and Mr. Wong Kam Wing as independent non-executive directors.