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

Steering through change

Interim Report 2013/14

Contents

HKRH is poised to take advantage of 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.

Corporate Information

DIRECTORS

Executive Directors

Dr. Wong, Kennedy Ying Ho[b,c], BBS, J.P., *Chairman*

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

Ms. Wong Wing Yan, Ella

Mr. Cheung Pak To, Patrick[d], BBS

Non-executive Director

Dr. Hui Ho Ming, Herbert[a,d], J.P.

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. Fu Yat Ming

AUDITORS

Deloitte Touche Tohmatsu

Certified Public Accountants

REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton, HM11

Bermuda

PRINCIPAL OFFICE IN HONG KONG

Unit 1701-11, 17th Floor

Peninsula Square

No. 18 Sung On Street

Hunghom, Kowloon

Hong Kong

Corporate Information

PRINCIPAL BANKERS

Shanghai Commercial Bank
China Construction Bank
China Merchants Bank
ICBC (Europe) S.A. Brussels Branch
Shanghai Pudong Development Bank
Bank of Beijing
Ping An Bank

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

Management Discussion and Analysis

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 2013 (the "**Period**").

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**").

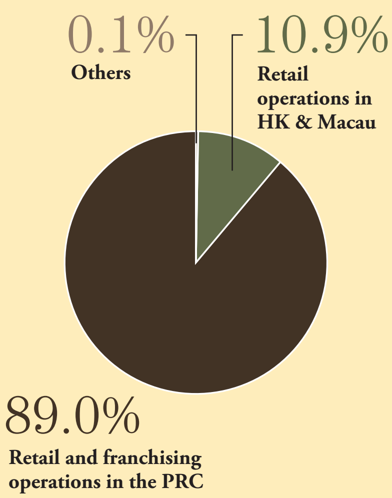
Following the various measures being taken since the first quarter of 2013, the management has endeavored to focus on improving the operations of the Group, primarily on: (i) enhancing the sales network by stocking up profit making stores and closing down non-performing stores, (ii) improving the franchisee system to strengthen the retail operations, (iii) exercising tight costs control; and (iv) economizing on cash flow.

As a result of the closure of non-performing stores and the change in franchise system, the turnover and gross profit has decreased by 48% and 32%, respectively, for the Period to HK$853 million and HK$227 million, respectively. Despite of such decreases, the implemented initiatives have resulted in positive impact to the Group's financial position, whereby, the overall gross profit margin has increased from 20% to 27% for the Period.

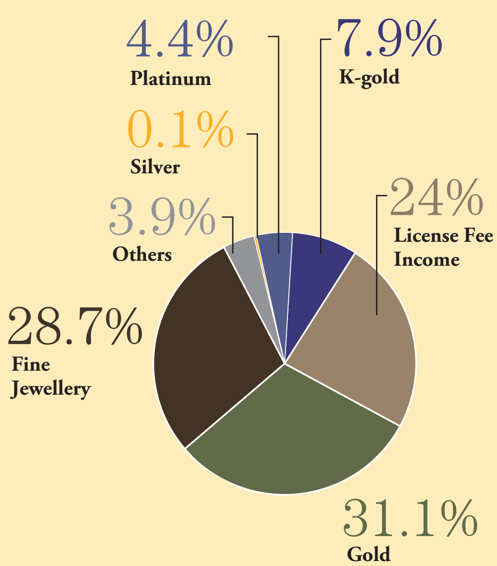
Sales from retailing and franchising of gold and jewellery products in Mainland China have remained to be the major source of income, which accounted for over 89% of turnover. The turnover of the Group for the Period amounted to HK$853 million (2012: HK$1,645 million), a decrease of 48% from Last Period. Mainland China recorded turnover of HK$759 million, also a decrease of 50% from Last Period, while Hong Kong and Macau recorded turnover of HK$93 million, also a decrease of 28% from Last Period. We have recorded a decline in overall same-store-growth of 48% (Last Period: 35%), of which same-store-growth in Mainland China declined by 49% (Last Period: 34%) and same-store-growth in Hong Kong and Macau declined by 27% (Last Period: 25%).

During the Period, the business model for the franchisee operation has changed from sales of goods to the receipt of license fees, i.e., franchisee made direct purchases with the authorised suppliers of the Group. This change has resulted in turnover from sales of goods to franchisee to decrease by HK$1,047 million, while license fee increased by HK$51 million. As license fee received is reflected directly in gross profit, this attributes to an increase in gross profit margin from 20% to 27% to the current Period. Through working closely with our franchisees to improve their profitability, we expect improvements in the Group's financial results.

Turnover Breakdown by Business



Gross Profit Analysis by Products



over 4

shops in China

414 shops in Mainland China
7 shops in Hong Kong
3 shops in Macau

22	Anhui
22	Beijing
7	Chongqing
12	Fujian
4	Gansu
60	Guangdong
16	Guangxi
1	Guizhou
2	Hainan
20	Hebei
7	Heilongjiang
14	Henan
7	Hong Kong
24	Hubei
6	Hunan
4	Inner Mongolia
37	Jiangsu
5	Jiangxi
6	Jilin
10	Liaoning
3	Macau
4	Ningxia
3	Qinghai
15	Shaanxi
68	Shandong
4	Shanghai
6	Shanxi
7	Sichuan
14	Tianjin
4	Xinjiang
5	Yunnan
5	Zhejiang

In addition to the change in business model for the franchisee's operations, the increase in the Group's overall gross profit margin was due to the increase in gem-set jewellery sales, which yielded a higher return than the sales of gold jewellery. Sales of our principal products, gold products and gem-set jewellery, consisted of 62% (Last Period: 66%) and 20% (Last Period: 18%), respectively of total turnover.

In line with the decrease in turnover, the Group's selling and distribution expenses have decreased to HK$196 million (Last Period: HK$222 million), while the Group's general and administrative expenses have increased to HK$87 million (Last Period: HK$74 million). The Group has implemented cost cutting policy, yet the reduction is off-set by the inflation experienced in the Mainland China.

Based on the current operation, the retail value of the 3D-GOLD brand, that is sales made by all 3D-GOLD stores, including self operated and franchise stores, amounted to HK$1,720 million for the Period, an increase of 9% from last year. In addition to (i) and (iv) above, various retrenchment measures have been taken and discussed in the "Business Review" section, whereby via working closely with our franchisees, through time, the brand value will be appreciated and reflected in the Group's financial results.

The priority of the management for the Period continues to focus on improving operational performance. The proactive initiatives in the first quarter of 2013 have not yet achieved positive result in the Group's financial position for the Period, where the financial performance of the Group for the Year seems to be still under pressure and has recorded a loss for the Period of HK$70 million (2012: HK$17 million).

INTERIM DIVIDEND

The Board has resolved not to recommend an interim dividend in respect of the 6 months ended 31 December 2013 to the holders of ordinary shares of the Company.

BUSINESS REVIEW AND PROSPECTS

Retail Operations

Overall turnover from the Hong Kong and Macau retail operations has reached HK$93 million (Last Period: HK$128 million) and HK$759 million (Last Period: HK$1,505 million) from the Mainland China operations. The decrease in turnover for the Period was mainly due to the closure of non-performing stores and change in business model for franchisee, as compared to the Last Period.

As at 31 December 2013, the Group had 7 points-of-sale in Hong Kong, 3 points-of-sale in Macau and 414 points-of-sale in Mainland China under the brandname "3D-GOLD". Of the points-of-sale in Mainland China, 109 were self-operated points-of-sale and 305 were franchisee points-of-sale. During the Period, 46 new shops and counters were opened in Mainland China and 38 loss making stores were closed.

Over 80% 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 continue to focus on the growth of franchisee stores, with a target of establishing 30% self-operated stores and 70% franchisee 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.

With a view to improve the profitability, the management has focused on the following areas with various measures: (i) adjusting the sales network by growing on profit making stores and eliminating non-performing stores, (ii) introducing a new regional franchisee system to strengthen the retail operations, (iii) continuing to develop and promote new series products, (iv) launching an Enterprise Resources Planning System, (v) persisting costs control; and (vi) improving cash flow.

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

E-Commerce and Corporate Gifts

To further broaden the sales channel, the Group has launched an e-commerce platform "Zun1" (www.zun1.com) and social network platform (www.54qn.cn) to capture the high ground in the fast emerging cyber market in Greater China and other regions. The Group has continued its investment in this e-commerce platform, and expects it can generate return and synergy in the future years.

Inspired by the promising market potential and increasing popularity of unique corporate gifts in China, the Group has expanded into the corporate gift market, while continuing on the strategic plan for our retail operations.

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 "Vivian Lai's ALL FOR LOVE Charity Concert", Prize Sponsor of the "International KamCha Competition 2013 (HK Style Milk Tea)", Prize Sponsor of the "McDonald's Monopoly 2013".

In addition, in July 2013, the Brand 3D-GOLD has opened its first 3D-GOLD Jewellery Boutique Store in Shenzhen. Also, in December 2013, the Brand 3D-GOLD has won the recognition of the Gold Prize (Top 10) in the Jewellery Category and the Special Awards of Fashion Brand 2013 granted by World Brand Lab.

Products and awards

The Brand 3D-GOLD has continued to enlarge its product portfolio in China by launching the "3D-GOLD x Dorian Ho Wedding Collection" and "3D-GOLD x Alice Wild • Love Alice Collection" in July and August, 2013 respectively.

Outlook

Looking ahead, we are positive about the business outlook in the medium to long run, despite short term market volatilities. With over 89% of the turnover from Mainland China, the Group remains confident of the growth of the gold and jewellery retail market for the years ahead; while continuing to promote our brand to secure even higher recognition and trust, as well as spreading our good reputation on product design, quality, value and authenticity.

In addition, reference is made to the joint announcement by the Company and Luk Fook Holdings (International) Limited ("**Luk Fook Holdings**") dated 28 January 2014. On 28 January 2014, the Company, Luk Fook 3D Management Company Limited ("**Luk Fook**") and China Gold Silver Group Company Limited ("**CGS**"), a wholly-owned subsidiary of the Company, entered into an agreement pursuant to which, among other things, the Company agreed to sell 1,667 ordinary shares of US$1.00 each in the issued share capital of CGS (which represents 50% of the issued share capital of CGS as at 28 January 2014), to Luk Fook, upon and subject to the terms and conditions thereof. Since Luk Fook Holdings is one of the leading jewellery retailers in Hong Kong and the PRC, the Directors believe that the expertise of Luk Fook Holdings will benefit the Company and CGS in developing the brand name of "3D-Gold" in the long run. Accordingly, the Directors expect the result of the Group will improve in the future.

The management expects the next financial year to be a period of transition, with the aim of stabilizing our business performance. The strategic direction we are taking is to restore the long term sustainable growth and profitability of the Group. The market volatilities may result in, however, uncertainty on our short term performance. We will continue to enhance the process controls, improve our brand positioning, assist our franchisees to improve profitability, introduce products with higher gross profit margins, and maintain effective cost controls.

Ultimately, we look forward to achieving our goal, which will result in growth and value to our investors and other stakeholders. We expect the operating cash flow to improve, along with our franchisee profitability.

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 2013, the Group had total cash and cash equivalents amounting to HK$524 million (30 June 2013: HK$425 million) whilst total net assets were HK$616 million (30 June 2013: HK$637 million). The Group's net gearing ratio as at 31 December 2013 was 80% (30 June 2013: 84%), being a ratio of total borrowing of HK$1,016 million (30 June 2013: HK$958 million) less pledged bank deposits and bank balances and cash of HK$524 million (30 June 2013: HK$425million) to total equity of HK$616 million (30 June 2013: HK$637 million). After taking into account the gold inventories of HK$348 million (30 June 2013: HK$394 million), the Group's adjusted net gearing ratio as at 31 December 2013 was 23% (30 June 2013: 22%), being a ratio of total borrowing less pledged bank deposits, bank balances and cash and gold inventories to total equity. As at 31 December 2013, the Group has available unutilized revolving banking facilities of HK$250 million (30 June 2013: HK$9 million).

Capital Commitments and Contingent Liabilities

Capital commitments and contingent liabilities of the Group as at 31 December 2013 are set out in notes 19 and 24.

Pledge of Assets

Pledge of assets of the Group as at 31 December 2013 is set out in note 21.

Financial Risk and Exposure

Except for the financial derivatives set out on the condensed consolidated statement of financial position and in notes 12, 14 and 16, the Group did not have any outstanding material foreign exchange contracts, interest or currency swaps, or other financial derivatives as at 31 December 2013.

Employees and Remuneration Policy

As at 31 December 2013, 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.

Other Information

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

At 31 December 2013, 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

	Number of ordinary shares				
Name of director	**Personal interests**	**Family interests**	**Corporate interests**	**Total**	**% of issued ordinary shares**
Executive Directors					
Dr. Wong, Kennedy Ying Ho	118,540,122	336,000 (Note a)	840,494,354 (Note b)	959,370,476	30.25%
Mr. Lam Kwok Hing, Wilfred	–	560,000 (Note c)	–	560,000	0.02%
Ms. Wong Wing Yan, Ella	88,000	200,500 (Note d)	–	288,500	0.01%
Mr. Cheung Pak To, Patrick	–	–	–	–	–
Non-executive Director					
Dr. Hui Ho Ming, Herbert	19,271,900	–	–	19,271,900	0.60%
Independent Non-executive Directors					
Mr. Fan, Anthony Ren Da	–	–	–	–	–
Ms. Estella Yi Kum Ng	–	–	–	–	–
Mr. Wong Kam Wing	5,371	–	–	5,371	0.00%

Notes:

(a) The shares are held by the spouse of Dr. Wong, Kennedy Ying Ho ("Dr Wong").

(b) Of the 840,494,354 shares, 757,703,752 shares are held by Perfect Ace Investments Limited ("Perfect Ace") and 82,790,602 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 the spouse of Mr. Lam Kwok Hing, Wilfred.

(d) 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 Directors	Capacity	Number of shares interested	% of shareholding
Executive Directors			
Dr. Wong, Kennedy Ying Ho	Beneficial owner (Note a)	457,437	0.01%
	Beneficial owner (Note b)	1,163,380	0.04%
	Family interests (Note c)	24,000	0.00%
	Controlled corporation (Note d)	60,115,067	1.90%
Mr. Lam Kwok Hing, Wilfred	Beneficial owner (Note b)	12,398,591	0.39%
	Family interests (Note e)	40,000	0.00%
Ms. Wong Wing Yan, Ella	Beneficial owner (Note b)	11,816,901	0.37%
Mr. Cheung Pak To, Patrick	Beneficial owner (Note b)	6,581,690	0.21%
Non-executive Director			
Dr. Hui Ho Ming, Herbert	Beneficial owner (Note b)	4,163,380	0.13%
Independent Non-executive Directors			
Mr. Fan, Anthony Ren Da	Beneficial owner (Note b)	2,441,942	0.08%
Ms. Estella Yi Kum Ng	Beneficial owner (Note b)	2,441,942	0.08%
Mr. Wong Kam Wing	Beneficial owner (Note b)	1,916,338	0.06%
	Beneficial owner (Note f)	383	0.00%

Notes:

(a) These derivatives represent the 457,437 bonus warrant shares underlying the bonus warrants held by Dr. Wong.

(b) All interests above are in the form of share options of the Company.

(c) These derivatives represent the 24,000 bonus warrant shares underlying the bonus warrants held by the spouse of Dr. Wong.

(d) These derivatives represent the 54,234,692 bonus warrant shares underlying the bonus warrants held by Perfect Ace and the 5,880,375 bonus warrant shares underlying the bonus warrants held by Limin Corporation. Dr. Wong was deemed to be interested in these derivatives through his controlling interests in Perfect Ace and Limin Corporation.

(e) These derivatives represent the 40,000 bonus warrant shares underlying the bonus warrants held by the spouse of Mr. Lam Kwok Hing, Wilfred.

(f) These derivatives represent the 383 bonus warrant shares underlying the bonus warrants held by Mr. Wong Kam Wing.

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 2013.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2013, 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 shareholders	Capacity	Number of issued ordinary shares held	% of shareholding
Perfect Ace Investments Limited	Beneficial owner (Note a)	757,703,752	23.89%
Limin Corporation	Beneficial owner (Note a)	82,790,602	2.61%
Dr. Liu Wangzhi	Corporate interest (Note b)	186,874,847	5.89%
	Beneficial owner	15,556,000	0.49%
Mr. Wen Jialong	Beneficial owner	165,861,957	5.23%
Mr. Yu Pan	Beneficial owner	165,000,000	5.20%

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) 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 is deemed to have interest in all the shares in Ming Feng.

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

Name of substantial shareholders	Capacity	Number of shares interested	% of shareholding
Perfect Ace Investments Limited	Beneficial owner (Notes a & c)	54,234,692	1.71%
Limin Corporation	Beneficial owner (Notes b & c)	5,880,375	0.19%
Dr. Liu Wangzhi	Corporate interest (Note d)	7,500,000	0.24%
Mr. Wen Jialong	Beneficial owner (Note e)	11,776,489	0.37%

Notes:

(a) These derivatives represent the 54,234,692 bonus warrant shares underlying the bonus warrants held by Perfect Ace.

(b) These derivatives represent the 5,880,375 bonus warrant shares underlying the bonus warrants held by Limin Corporation.

(c) Please refer to the bonus warrant shares underlying the bonus warrants held by Dr. Wong as disclosed under the "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" section above.

(d) These derivatives represent the 7,500,000 bonus warrant shares underlying the bonus warrants held by Ming Feng. Ming Feng is owned as to 49% by Ms. Chan, the spouse of Dr. Liu and 51% by Dr. Liu. Ms. Chan holds 49% shares in trust for Dr. Liu. As such, Dr. Liu is deemed to have interest in all the shares in Ming Feng.

(e) These derivatives represent the 11,776,489 bonus warrant shares underlying the bonus warrants held by Mr. Wen Jialong.

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 2013.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 18 to the 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 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.

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 report, 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.

By Order of the Board

Hong Kong Resources Holdings Company Limited
Dr. Wong, Kennedy Ying Ho, BBS J.P.
Chairman

Hong Kong, 28 February 2014

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 condensed consolidated financial statements of Hong Kong Resources Holdings Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 18 to 46, which comprise the condensed consolidated statement of financial position as of 31 December 2013 and the related condensed consolidated statement of profit or loss and other 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 these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements 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 these condensed consolidated financial statements 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 condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 February 2014

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 31 December 2013

	Notes	Six months ended 31 December **2013** HK$'000 (Unaudited)	2012 HK$'000 (Unaudited)
Turnover	3	**852,677**	1,645,070
Cost of sales		**(625,365)**	(1,308,365)
Gross profit		**227,312**	336,705
Other income		**22,878**	11,527
Selling expenses		**(196,495)**	(222,484)
General and administrative expenses		**(86,771)**	(74,345)
Impairment loss on trade receivables recognised		**(710)**	–
Other operating expenses		**(10,606)**	(13,431)
(Loss) profit from operations		**(44,392)**	37,972
Change in fair value of derivative financial instruments		**4,601**	428
Finance costs	4	**(28,467)**	(32,424)
Share of results of associates		**(1,302)**	(1,673)
Share of results of joint ventures		**(13)**	(3,158)
(Loss) profit before taxation	5	**(69,573)**	1,145
Taxation	6	**(344)**	(18,236)
Loss for the period		**(69,917)**	(17,091)
Other comprehensive income:			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation		**4,380**	9,036
Total comprehensive expense for the period		**(65,537)**	(8,055)
Loss for the period attributable to:			
Owners of the Company		**(69,720)**	(17,091)
Non-controlling interests		**(197)**	–
		(69,917)	(17,091)
Total comprehensive expense for the period attributable to:			
Owners of the Company		**(65,340)**	(8,055)
Non-controlling interests		**(197)**	–
		(65,537)	(8,055)
Loss per ordinary share	8		
Basic		**(HK$0.023)**	(HK$0.008)
Diluted		**(HK$0.023)**	(HK$0.008)

Condensed Consolidated Statement of Financial Position

As at 31 December 2013

	Notes	31 December 2013 HK$'000 (Unaudited)	30 June 2013 HK$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	9	**64,290**	72,570
Deposits for acquisition of property, plant and equipment		**5,693**	3,368
Other receivables and deposits paid	10	**12,714**	16,887
Loan to related parties		**101,657**	98,746
Settlement options in relation to the loan to related parties		**26,211**	26,211
Intangible assets	11	**172,386**	171,186
Goodwill	23	**5,274**	–
Interests in associates		**–**	6,217
Interests in joint ventures		**3,526**	3,539
Derivative financial asset		**4,601**	–
Deferred tax assets		**13,979**	–
		410,331	398,724
Current assets			
Inventories		**782,278**	874,618
Trade and other receivables and deposits paid	10	**211,521**	270,389
Loan receivable		**63,283**	–
Amount due from a joint venture		**963**	1,442
Amount due from an associate		**26,400**	10,347
Tax recoverable		**127**	10,610
Pledged bank deposits		**413,497**	302,171
Bank balances and cash		**110,187**	122,639
		1,608,256	1,592,216
Current liabilities			
Trade and other payables, accruals and deposits received	13	**310,623**	296,373
Amounts due to joint ventures		**3,767**	3,592
Amount due to a non-controlling shareholder of a subsidiary		**439**	–
Financial liabilities at fair value through profit or loss	12	**22,285**	49,923
Convertible bonds	14	**–**	223,910
Obligations under finance leases		**242**	232
Bank and other borrowings	15	**597,485**	585,329
Gold loans	16	**363,923**	129,059
Tax liabilities		**6,797**	8,293
		1,305,561	1,296,711
Net current assets		**302,695**	295,505
Total assets less current liabilities		**713,026**	694,229

Condensed Consolidated Statement of Financial Position

As at 31 December 2013

	Notes	**31 December 2013 HK$'000 (Unaudited)**	30 June 2013 HK$'000 (Audited)
Non-current liabilities			
Bank and other borrowings	15	**54,505**	18,768
Obligations under finance leases		**256**	389
Deferred tax liabilities		**42,233**	37,888
		96,994	57,045
NET ASSETS		**616,032**	637,184
CAPITAL AND RESERVES			
Share capital	17	**31,711**	29,541
Reserves		**580,200**	611,089
Equity attributable to owners of the Company		**611,911**	640,630
Non-controlling interests		**4,121**	(3,446)
TOTAL EQUITY		**616,032**	637,184

Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 December 2013

	Attributable to owners of the Company												
	Ordinary share capital HK$'000	Preference share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000	Other reserve HK$'000 (note (i))	Share option reserve HK$'000	Warrant reserve HK$'000	Exchange reserve HK$'000	PRC statutory reserve HK$'000 (note (ii))	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 July 2012 (audited)	19,692	4	521,306	55,327	(213,605)	15,582	–	32,868	18,662	136,799	586,635	–	586,635
Loss for the period	–	–	–	–	–	–	–	–	–	(17,091)	(17,091)	–	(17,091)
Other comprehensive income for the period	–	–	–	–	–	–	–	9,036	–	–	9,036	–	9,036
Total comprehensive income (expense) for the period	–	–	–	–	–	–	–	9,036	–	(17,091)	(8,055)	–	(8,055)
Equity-settled share-based payments	–	–	–	–	–	335	–	–	–	–	335	–	335
Acquisition of a subsidiary (note 23(b))	–	–	–	–	–	–	–	–	–	–	–	2	2
Lapse of share options	–	–	–	–	–	(858)	–	–	–	858	–	–	–
Transfer between reserves	–	–	–	–	–	–	–	–	2,452	(2,452)	–	–	–
At 31 December 2012 (unaudited)	19,692	4	521,306	55,327	(213,605)	15,059	–	41,904	21,114	118,114	578,915	2	578,917

Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 December 2013

	Attributable to owners of the Company												
	Ordinary share capital HK$'000	Preference share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000	Other reserve HK$'000 (note (i))	Share option reserve HK$'000	Warrant reserve HK$'000	Exchange reserve HK$'000	PRC statutory reserve HK$'000 (note (ii))	Retained earnings (accumulated losses) HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 July 2013 (audited)	29,541	–	639,845	55,327	(213,605)	19,010	21,830	48,116	21,114	19,452	640,630	(3,446)	637,184
Loss for the period	–	–	–	–	–	–	–	–	–	(69,720)	(69,720)	(197)	(69,917)
Other comprehensive income for the period	–	–	–	–	–	–	–	4,380	–	–	4,380	–	4,380
Total comprehensive income (expense) for the period	–	–	–	–	–	–	–	4,380	–	(69,720)	(65,340)	(197)	(65,537)
Addition of interests in a subsidiary	–	–	–	–	(3,643)	–	–	–	–	–	(3,643)	3,643	–
Acquisition of subsidiaries (note 23(a))	–	–	–	–	–	–	–	–	–	–	–	4,121	4,121
Equity-settled share-based payments	–	–	–	–	–	1,822	–	–	–	–	1,822	–	1,822
Lapse of share options	–	–	–	–	–	(77)	–	–	–	77	–	–	–
Issue of new shares by way of placing of shares, net of transaction cost	2,170	–	36,262	–	–	–	–	–	–	–	38,432	–	38,432
Exercise of warrants	–	–	14	–	–	–	(4)	–	–	–	10	–	10
Transfer between reserves	–	–	–	–	–	–	–	–	1,510	(1,510)	–	–	–
At 31 December 2013 (unaudited)	31,711	–	676,121	55,327	(217,248)	20,755	21,826	52,496	22,624	(51,701)	611,911	4,121	616,032

Notes:

(i) Including in other reserve of HK$213,605,000 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 shareholders on 14 May 2010. The remaining amount of HK$3,643,000 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 Rise Rich International Limited, a subsidiary of the Company, being acquired from the non-controlling shareholders on 31 December 2013.

(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 2013

	Notes	Six months ended 31 December 2013 HK$'000 (Unaudited)	2012 HK$'000 (Unaudited)
Net cash from (used in) operating activities		**90,351**	(21,983)
Investing activities			
Net cash and cash equivalent acquired from acquisition of a subsidiary	23(a)	**2**	1,596
Acquisition of a subsidiary	23(b)	**–**	(3,200)
Placement of pledged bank deposits		**(170,192)**	(202,047)
Withdrawal of pledged bank deposits		**61,199**	–
Deposit paid for acquisition of property, plant and equipment		**(2,325)**	–
Purchase of property, plant and equipment		**(7,390)**	(14,053)
Proceeds from disposal of property, plant and equipment		**2,862**	2,877
Interest received		**7,171**	1,412
Loan to an independent third party		**(63,283)**	–
Net cash used in investing activities		**(171,956)**	(213,415)
Financing activities			
New bank and other borrowings		**237,905**	257,428
New gold loans		**349,692**	124,090
Proceeds from the issue of new ordinary shares		**38,442**	–
Repayment of bank borrowings		**(217,871)**	(67,282)
Repayment of convertible bonds		**(211,200)**	(151,800)
Repayment of gold loans		**(102,290)**	–
Interest paid		**(23,672)**	(25,760)
Advance from a joint venture		**654**	–
Advance from non-controlling interests of a subsidiary		**439**	–
Net cash from financing activities		**72,099**	136,676
Net decrease in cash and cash equivalents		**(9,506)**	(98,722)
Cash and cash equivalents at beginning of the period		**122,639**	161,614
Effect of foreign exchange rate changes		**(2,946)**	(3,260)
Cash and cash equivalents at end of the period, represented by bank balances and cash		**110,187**	59,632

1. BASIS OF PREPARATION

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

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 2013 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2013.

Application of new and revised Hong Kong Financial Reporting Standards

In the current interim period, the Group has applied, for the first time, the following new or revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine

Except as described below, the application of the 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.

New and revised standards on consolidation, joint arrangements, associates and disclosures

In the current interim period, the Group has applied for the first time the package of five standards on consolidation, joint arrangements, associates and disclosures comprising HKFRS 10 *Consolidated Financial Statements*, HKFRS 11 *Joint Arrangements*, HKFRS 12 *Disclosure of Interests in Other Entities*, HKAS 27 (as revised in 2011) *Separate Financial Statements* and HKAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*, together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding transitional guidance.

HKAS 27 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements.

The impact of the application of these standards is set out below.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and revised Hong Kong Financial Reporting Standards *(Continued)*

Impact of the application of HKFRS 10

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 changes the definition of control such that an investor has control over an investee when (a) it has power over the investee, (b) it is exposed, or has rights, to variable returns from its involvement with the investee and (c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee.

The application of HKFRS 10 did not have significant impact on amounts reported in the condensed consolidated financial statements.

Impact of the application of HKFRS 11

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures*, and the guidance contained in a related interpretation, HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*, has been incorporated in HKAS 28 (as revised in 2011). HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under HKFRS 11, there are only two types of joint arrangements-joint operations and joint ventures. The classification of joint arrangements under HKFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. Previously, HKAS 31 had three types of joint arrangements-jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under HKAS 31 was primarily determined based on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was classified as a jointly controlled entity).

The initial and subsequent accounting of joint ventures and joint operations are different. Investments in joint ventures are accounted for using the equity method (proportionate consolidation is no longer allowed). Investments in joint operations are accounted for such that each joint operator recognises its assets (including its share of any assets jointly held), its liabilities (including its share of any liabilities incurred jointly), its revenue (including its share of revenue from the sale of the output by the joint operation) and its expenses (including its share of any expenses incurred jointly). Each joint operator accounts for the assets and liabilities, as well as revenues and expenses, relating to its interest in the joint operation in accordance with the other applicable standards.

The directors reviewed and assessed the classification of the Group's interests in joint arrangements in accordance with the requirements of HKFRS 11. The directors concluded that the Group's interests in joint arrangements, which were classified as jointly controlled entities under HKAS 31 and were accounted for using the equity method, should be classified as joint ventures under HKFRS 11 and continued to be accounted for using the equity method. The application of HKFRS 11 did not have significant impact on amounts reported in the condensed consolidated financial statements.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and revised Hong Kong Financial Reporting Standards *(Continued)*

HKFRS 12 Disclosure of interest in other entities

HKFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of HKFRS 12 has resulted in more extensive disclosures in the consolidated financial statements.

The directors concluded that the application of HKFRS 12 will not result in more disclosure in the consolidated financial statements for the year ending 30 June 2014 as the joint ventures are not material to the Group.

HKFRS 13 Fair Value Measurement

The Group has applied HKFRS 13 for the first time in the current interim period. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of HKFRS 13 is broad: the fair value measurement requirements of HKFRS 13 apply to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

HKFRS 13 requires prospective application. In accordance with the transitional provisions of HKFRS 13, the Group has not made any new disclosures required by HKFRS 13 for the comparative period (please see note 25 for the disclosures for the current interim period). Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised in the condensed consolidated financial statements.

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	
	2013	2012
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Sales of goods	**789,366**	1,627,389
Licence income	**54,509**	3,464
Franchise income	**8,802**	14,217
	852,677	1,645,070

(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 and jewellery products.

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

3. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

For the six months ended 31 December 2013 (unaudited)

	Reportable segment				
	Retail and franchising operations for selling gold and jewellery products in Mainland China HK$'000	Retail operations for selling gold and jewellery products in Hong Kong and Macau HK$'000	Total HK$'000	Others (note) HK$'000	Consolidated HK$'000
REVENUE					
External sales	758,720	93,297	852,017	660	852,677
RESULT					
Segment results	578	(8,434)	(7,856)	(3,686)	(11,542)
Other income					22,878
Unallocated staff related expenses					(17,834)
Other unallocated corporate expenses					(14,179)
Advertising, promotion and business development expenses					(21,893)
Equity-settled share-based payments					(1,822)
Change in fair value of derivative financial instruments					4,601
Finance costs					(28,467)
Share of results of associates					(1,302)
Share of results of a joint venture					(13)
Loss before taxation					(69,573)
Taxation					(344)
Loss for the period					(69,917)

3. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

For the six months ended 31 December 2012 (unaudited)

	Reportable segment				
	Retail and franchising operations for selling gold and jewellery products in Mainland China HK$'000	Retail operations for selling gold and jewellery products in Hong Kong and Macau HK$'000	Total HK$'000	Others (note) HK$'000	Consolidated HK$'000
REVENUE					
External sales	1,504,661	128,390	1,633,051	12,019	1,645,070
RESULT					
Segment results	95,273	6,126	101,399	(2,839)	98,560
Other income					11,527
Unallocated staff related expenses					(23,557)
Other unallocated corporate expenses					(21,895)
Advertising, promotion and business development expenses					(26,328)
Equity-settled share-based payments					(335)
Change in fair value of derivative financial instruments					428
Finance costs					(32,424)
Share of results of associates					(1,673)
Share of results of joint ventures					(3,158)
Profit before taxation					1,145
Taxation					(18,236)
Loss for the period					(17,091)

Segment profit (loss) represents the profit (loss) of each segment without allocation of other income, central administration costs, marketing and promotion expenses, corporate staff and directors' salaries, equity-settled share-based payments, change in fair value of derivative financial instruments, finance costs, share of results of associates and joint ventures, 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 wholesale of diamonds in the PRC, online marketing and e-commerce.

4. FINANCE COSTS

	Six months ended 31 December	
	2013	2012
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Interests on:		
Bank and other borrowings wholly repayable within 5 years	**13,070**	11,094
Gold loans	**5,612**	5,551
Finance leases	**11**	27
Other finance costs	**3,317**	211
Effective interest on convertible bonds	**6,457**	15,541
	28,467	32,424

5. (LOSS) PROFIT BEFORE TAXATION

	Six months ended 31 December	
	2013	2012
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
(Loss) profit before taxation has been arrived at after charging (crediting):		
Advertising, promotion and business development expenses	**21,893**	26,328
Change in fair value of gold loans	**(13,535)**	(634)
Change in fair value of financial liabilities at fair value through profit or loss	**(6,403)**	(4,855)
Cost of inventories recognised as an expense	**645,303**	1,313,854
Depreciation of property, plant and equipment	**11,944**	11,911
Equity-settled share-based payments (note 18(b))	**1,822**	335
Exchange gain, net	**(2,691)**	(6,975)
Loss on disposal of property, plant and equipment	**1,229**	1,701
Impairment losses on other receivables	**–**	1,415
Interest income	**(13,968)**	(1,412)
Operating lease rentals		
– contingent rental	**63,490**	81,952
– minimum lease payments	**24,521**	24,956

6. TAXATION

	Six months ended 31 December	
	2013	2012
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Current tax:		
Hong Kong Profits Tax	**596**	739
PRC Enterprise Income Tax	**11,322**	18,706
	11,918	19,445
Overprovision in prior years:		
PRC Enterprise Income Tax	**(1,940)**	–
Deferred taxation	**(9,634)**	(1,209)
	344	18,236

Hong Kong Profits Tax is calculated at 16.5% (six months ended 31 December 2012: 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% during the period.

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 Enterprises 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 period.

7. DIVIDENDS

The Board has resolved not to declare an interim dividend in respect of the six months ended 31 December 2013 and 31 December 2012 to the holders of ordinary shares of the Company.

8. LOSS PER ORDINARY SHARE

	Six months ended 31 December	
	2013	2012
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Loss:		
Loss for the period attributable to owners of the Company	**(69,720)**	(17,091)
Dividends on preference shares	**–**	(4)
Loss for the period attributable to owners of the Company for the purpose of basic and diluted loss per ordinary share	**(69,720)**	(17,095)

	Number of	Number of
	'000	'000
	(Unaudited)	(Unaudited)
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per ordinary share	**3,071,401**	2,273,298

Note:

The weighted average number of ordinary shares for the purposes of calculating basic and diluted earnings per ordinary share for the six months ended 31 December 2012 had been adjusted for the effect of bonus element in connection with rights issue of the Company on 30 January 2013.

The computation of diluted loss per ordinary share for the six months ended 31 December 2013 did not assume the exercise of the share options and bonus warrants because their exercise price is higher than the average share price.

The computation of diluted loss per ordinary share for the six 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 preference shares since their conversion would result in a decrease in loss per ordinary share for the six months ended 31 December 2012.

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of HK$7,390,000 (six months ended 31 December 2012: HK$19,566,000).

10. TRADE AND OTHER RECEIVABLES AND DEPOSITS PAID

	31 December 2013 HK$'000 (Unaudited)	30 June 2013 HK$'000 (Audited)
Non-current other receivables and deposits paid:		
Rental and other deposits	5,742	4,775
Other receivable from a joint venture	–	10,000
Interest receivables from related parties	6,972	2,112
	12,714	16,887
Current trade and other receivables and deposits paid comprise:		
Trade receivables	180,759	220,407
Less: allowance for doubtful debts	(27,710)	(27,000)
	153,049	193,407
Other receivables and deposits paid	58,472	76,982
	211,521	270,389

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 2013 are trade receivables from a joint venture amounting to HK$4,485,000 (30 June 2013: HK$4,485,000).

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 2013 HK$'000 (Unaudited)	30 June 2013 HK$'000 (Audited)
0-30 days	134,983	176,494
31-60 days	9,087	6,602
61-90 days	1,766	978
Over 90 days	7,213	9,333
	153,049	193,407

Included in the allowance for doubtful debts are individually impaired trade receivables from an independent customer of HK$27,710,000 (30 June 2013: HK$27,000,000). the Group took legal action against this debtor and made impairment loss of HK$27,710,000 (30 June 2013: HK$27,000,000) based on the court finding on 22 September 2013. The Group does not hold any collateral over these balances.

11. INTANGIBLE ASSETS

	Notes	31 December 2013 HK$'000 (Unaudited)	30 June 2013 HK$'000 (Audited)
Trademarks	(a)	171,186	171,186
License	(b)	1,200	–
		172,386	171,186

Notes:

(a) The trademarks have contractual lives of 10 years commencing in December 2008, April 2009 and February 2012, 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.

On 31 December 2013, management of the Group conducted impairment review on the trademarks due to the decrease in turnover. The recoverable amounts of the trademarks have been determined based on a value in use calculation, which is based on the financial budgets approved by management covering a five-year period and a discount rate of 17% (30 June 2013: 17%). The cash flows beyond the five-year period are extrapolated using a 3% (30 June 2013: 3%) growth rate. The key assumptions for the value in use calculations are discount rate and growth rate. The growth rate does not exceed the long-term average growth rate for the relevant industry. Based on the assessments, management expects the carrying amount of the trademarks to be recoverable and there is no impairment of the trademarks. Management considers that any reasonable possible change in these key assumptions would not cause the carrying amount of the trademarks to exceed the recoverable amount.

(b) License represented 10 year's non-exclusive right to use a cartoon image on all web applications on internet and mobile devices including but not limited to apps on iphones and ipads. The cost is amortised on a straight-line method to profit or loss over 10 years.

12. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial liabilities at fair value through profit or loss comprise:

	31 December 2013 HK$'000 (Unaudited)	30 June 2013 HK$'000 (Audited)
Bullion forward contracts (note a)	22,285	49,775
Gold bullion contracts through margin account (note b)	–	148
	22,285	49,923

Notes:

(a) The Group used 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 2013 amounted to United States dollar ("USD") 26,076,000 (30 June 2013: USD23,117,000) which have maturity period up to 6 to 12 months since date of inception.

(b) The amount as at 30 June 2013 represented the fair value of the open position of gold bullion contracts through margin account with an aggregated notional value of USD2,147,000. The contracts contained 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 was determined based on the quoted market price at the end of the reporting period.

13. TRADE AND OTHER PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

	31 December 2013 HK$'000 (Unaudited)	30 June 2013 HK$'000 (Audited)
Trade payables	**102,880**	72,752
Deposits received from customers (note a)	**36,308**	46,359
Franchisee guarantee deposits (note b)	**64,189**	58,494
Other payables, accruals and other deposits	**107,246**	118,768
	310,623	296,373

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 2013 HK$'000 (Unaudited)	30 June 2013 HK$'000 (Audited)
0-30 days	**65,987**	42,480
31-60 days	**20,065**	7,987
61-90 days	**6,688**	4,976
Over 90 days	**10,140**	17,309
	102,880	72,752

14. CONVERTIBLE BONDS

(i) Convertible bonds

Convertible bonds due 2013 ("CB 2013")

During the current interim period, the Company redeemed the CB 2013 at HK$237,600,000, representing 110% of the outstanding principal amount on maturity date of 14 September 2013 in accordance with the term of the relevant subscription agreement for the issue of CB 2013.

Convertible bonds due 2012 ("CB 2012")

During the six months ended 31 December 2012, the Company redeemed the 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 effective interest rates of CB 2013 and CB 2012 are 12.02% and 10.74%, respectively.

(ii) Derivative financial instruments

The fair value of the derivatives embedded in CB 2013 at 31 December 2012 and 30 June 2013 are based on valuation carried out on those dates by an independent valuer. The change in fair value of HK$428,000 has been credited to profit or loss for the six 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 of CB 2013, at the respective dates were as follows:

CB 2013	At 31 December 2012	At 30 June 2013	**At 31 December 2013**
Share price	HK$0.27	HK$0.18	**N/A**
Exercise price	HK$1.58	HK$1.37	**N/A**
Expected dividend yield	0.00%	0.00%	**N/A**
Volatility	48.80%	43.51%	**N/A**

15. BANK AND OTHER BORROWINGS

	31 December 2013 HK$'000 (Unaudited)	30 June 2013 HK$'000 (Audited)
Unsecured floating rate bank loans	**130,783**	130,298
Secured floating rate bank loans	**410,405**	466,834
	541,188	597,132
Unsecured interest-free other borrowing		
– Non-controlling shareholder of a subsidiary	**–**	3,197
Unsecured floating rate other borrowings		
– An independent third party	**60,000**	–
– A company controlled by a director of the Company	**18,003**	–
– A director of the Company	**9,002**	–
Unsecured fixed rate other borrowing		
– An independent third party	**20,000**	–
Secured fixed rate other borrowing		
– An independent third party	**3,797**	3,768
	110,802	6,965
	651,990	604,097
Secured	**414,202**	466,834
Unsecured	**237,788**	137,263
	651,990	604,097
Carrying amounts repayable:		
On demand or within one year*	**539,578**	447,352
More than one year, but not exceeding two years*	**34,505**	18,768
More than two years but not more than five years*	**–**	–
More than five years*	**20,000**	–
	594,083	466,120
Carrying amount of bank loans that contain a repayment on demand clause (shown under current liabilities)		
– repayable within one year*	**57,907**	125,477
– repayable after more than one year, but not exceeding two years*	**–**	12,500
	57,907	137,977
	651,990	604,097
Less: Amounts due within one year and shown under current liabilities	**(597,485)**	(585,329)
Amounts shown under non-current liabilities	**54,505**	18,768

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

16. GOLD LOANS

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

As at 31 December 2013 and 30 June 2013, the gold loans are denominated in RMB, interest bearing at a weighted average rate of 4.91% (30 June 2013: 5.13%) per annum with original maturity of 12 months, and secured by inventories with a carrying amount of HK$708,771,000 (30 June 2013: HK$439,588,000).

The gain arising from change in fair value of gold loans of HK$13,535,000 (six months ended 31 December 2012: HK$634,000) has been recognised in profit or loss for the period from 1 July 2013 to 31 December 2013. 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.

17. SHARE CAPITAL

	Notes	Number of shares '000	Amount HK$'000
Authorised:			
At 1 July 2013 and 31 December 2013			
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:			
Ordinary shares of HK$0.01 each		**2,954,099**	29,541
At 1 July 2013			
Issue of new shares by way of a placing	(a)	**217,000**	2,170
Exercise of warrants	(b)	**40**	–
At 31 December 2013		**3,171,139**	31,711
Total:			
At 1 July 2013		**2,954,099**	29,541
At 31 December 2013		**3,171,139**	31,711

Notes:

(a) The Company issued 217,000,000 ordinary shares in September 2013 by way of a placing at a placing price of HK$0.18 per placing share.

(b) During the current period, the Company issued 40,420 ordinary shares of HK$0.01 at the exercise price of HK$0.245 per ordinary share pursuant to the exercise of the bonus warrants granted by the Company.

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 2012/2013 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:

				Number of options				
Eligible person	Date of grant	Exercise period	Exercise price HK$	Outstanding as at 1.7.2013	Reclassification during the period	Granted during the period	Lapsed during the period	Outstanding as at 31.12.2013
Directors	23.1.2009	23.1.2009 to 22.1.2019	0.4280	1,051,208	–	–	–	1,051,208
	20.7.2009	20.7.2009 to 19.7.2019	1.2980	5,002,534	–	–	–	5,002,534
	26.7.2011	26.7.2011 to 25.7.2021	0.4810	2,326,760	–	–	–	2,326,760
	26.7.2011	26.7.2012 to 25.7.2021	0.4810	3,490,140	–	–	–	3,490,140
	26.7.2011	26.7.2013 to 25.7.2021	0.4810	4,653,522	–	–	–	4,653,522
	25.1.2013	28.2.2013 to 24.1.2023	0.2288	8,800,000	–	–	–	8,800,000
	25.1.2013	28.2.2014 to 24.1.2023	0.2288	8,800,000	–	–	–	8,800,000
	25.1.2013	28.2.2015 to 24.1.2023	0.2288	8,800,000	–	–	–	8,800,000
				42,924,164	–	–	–	42,924,164
Employees	20.7.2009	20.7.2009 to 19.7.2019	1.2980	1,745,070	–	–	–	1,745,070
	25.1.2013	28.2.2013 to 24.1.2023	0.2288	11,200,000	–	–	(500,000)	10,700,000
	25.1.2013	28.2.2014 to 24.1.2023	0.2288	11,200,000	–	–	(500,000)	10,700,000
	25.2.2013	28.2.2015 to 24.1.2023	0.2288	11,200,000	–	–	(500,000)	10,700,000
	27.2.2013	28.2.2013 to 24.1.2023	0.2288	10,000,000	–	–	–	10,000,000
	27.2.2013	28.2.2014 to 24.1.2023	0.2288	10,000,000	–	–	–	10,000,000
	27.2.2013	28.2.2015 to 24.1.2023	0.2288	10,000,000	–	–	–	10,000,000
				65,345,070	–	–	(1,500,000)	63,845,070
Consultants	20.7.2009	20.7.2009 to 19.7.2019	1.2980	814,366	–	–	–	814,366
	13.4.2010	13.4.2009 to 12.4.2020	1.2030	2,326,761	–	–	–	2,326,761
	13.4.2010	13.7.2010 to 12.4.2020	1.2030	5,816,901	–	–	–	5,816,901
	13.4.2010	13.10.2010 to 12.4.2020	1.2030	5,816,901	–	–	–	5,816,901
	13.4.2010	13.1.2011 to 12.4.2020	1.2030	6,710,377	–	–	–	6,710,377
	26.7.2011	26.7.2011 to 25.7.2021	0.4810	581,690	–	–	–	581,690
	26.7.2011	26.7.2012 to 25.7.2021	0.4810	872,535	–	–	–	872,535
	26.7.2011	26.7.2013 to 25.7.2021	0.4810	1,163,380	–	–	–	1,163,380
	25.1.2013	28.2.2013-24.1.2023	0.2288	900,000	–	–	–	900,000
	25.1.2013	28.2.2014-24.1.2023	0.2288	900,000	–	–	–	900,000
	25.1.2013	28.2.2015-24.1.2023	0.2288	900,000	–	–	–	900,000
				26,802,911	–	–	–	26,802,911
				135,072,145	–	–	(1,500,000)	133,572,145
Exercisable at the end of the period				67,455,243				72,772,145
Weighted average exercise price				0.464				0.466

18. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(a) *(Continued)*

Eligible person	Date of grant	Exercise period	Exercise price HK$	Number of options: Outstanding as at 1.7.2012	Reclassification during the period (Note a)	Granted during the period	Lapsed during the period (Note b)	Outstanding as at 31.12.2012
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	5,800,000	(500,000)	–	(1,000,000)	4,300,000
	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
				15,703,580	(500,000)	–	(1,000,000)	14,203,580
Employees	20.7.2009	20.7.2009 to 19.7.2019	1.510	1,000,000	500,000	–	–	1,500,000
Consultants	20.7.2009	20.7.2009 to 19.7.2019	1.510	700,000	–	–	–	700,000
	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
				20,718,000	–	–	–	20,718,000
				37,421,580	–	–	(1,000,000)	36,421,580
Exercisable at the end of the period				28,671,580				31,421,580
Weighted average exercise price				1.148				1.138

Notes:

a. Mr. Chui Chuen Shun, a holder of 1,000,000 share options, changed from director to employee on 31 July 2012.

Mr. Cheung Pak To, Patrick, a holder of 500,000 share options, changed from employee to director on 15 November 2012.

b. Mr. Mung Kin Keung, a holder of 1,000,000 share options, resigned as director on 7 November 2012.

(b) The Group recognised the total expense of HK$1,822,000 (six months ended 31 December 2012: HK$335,000) in profit or loss for the six months ended 31 December 2013 in relation to share options granted by the Company. The variables and assumptions used in computing the fair value of the share options are based on the management's best estimate. The value of an option varies with different variables of a number of subjective assumptions. Any change in the variable so adopted may materially affect the estimation of the fair value of an option.

19. CAPITAL COMMITMENTS

	31 December 2013 HK$'000 (Unaudited)	30 June 2013 HK$'000 (Audited)
Capital expenditure in respect of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	**5,836**	5,375

20. OPERATING LEASES COMMITMENTS

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

	31 December 2013 HK$'000 (Unaudited)	30 June 2013 HK$'000 (Audited)
Within one year	**26,640**	34,568
In the second to fifth years inclusive	**8,464**	10,801
	35,104	45,369

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

As at 31 December 2013, the Group's inventories, bank deposits, trade receivables and other receivables with a carrying amount of HK$708,771,000 (30 June 2013: HK$439,588,000), HK$413,497,000 (30 June 2013: HK$302,171,000), HK$149,831,000 (30 June 2013: HK$184,609,000) and HK$12,436,000 (30 June 2013: HK$28,067,000), respectively were pledged to banks as securities to obtain the banking facilities granted to subsidiaries of the Group.

In addition, the Group's inventories with a carrying amount of RMB4,000,000 (equivalent to HK$5,063,000) (30 June 2013: RMB4,000,000 (equivalent to HK$5,024,000)) was pledged to an independent third party as securities for other borrowing of HK$3,797,000 (30 June 2013: HK$3,768,000) to 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 2013 HK$'000 (Unaudited)	2012 HK$'000 (Unaudited)
A solicitors firm in which a director of the Company is a partner	Company secretariat and legal services fee	**1,028**	560
An associate	Business promotion income	**–**	4
An associate	Business promotion expense	**–**	380
A joint venture	Purchase of jewellery	**235**	–

As at 31 December 2013 and 30 June 2013, the Group had an outstanding financial guarantee issued to a bank in respect of a banking facility granted to a joint venture as disclosed in note 24.

(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 notes 10 and 15.

(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 2013 HK$'000 (Unaudited)	2012 HK$'000 (Unaudited)
Fees	**1,073**	846
Salaries	**5,466**	5,411
Retirement benefit costs	**38**	38
Equity-settled share-based payments	**698**	–
	7,275	6,295

23 ACQUISITION OF SUBSIDIARIES

(a) On 31 December 2013, the Group acquired an additional 40% interest in A Stars Entertainment Group Limited and its subsidiaries ("A Stars Group"), an existing associate of the Group at a consideration of HK$10,000,000 from a joint venture of the Group. Upon completion of the acquisition, the Group owned 70% interest in A Stars Group and the transaction has been accounted for as business combination using the acquisition method. A Stars Group is engaged in television programmes and content production.

Acquisition-related costs relating to the above acquisition are immaterial and excluded from the cost of acquisition and have been recognised as an expense in profit or loss.

Assets and liabilities recognised at the date of acquisition are as follows:

	HK$'000
Intangible assets	1,200
Amount due from an associate	26,400
Bank balances and cash	2
Other payables	(1,928)
Amounts due to shareholders	(11,912)
Non-controlling interests of A Stars Group	10
Net assets at the date of acquisition	13,772

Goodwill arising on acquisition:

	HK$'000
Consideration transferred	10,000
Plus: Non-controlling interests (30% in A Stars Group)	4,131
Plus: Fair value of previously held interest	4,915
Less: Net assets acquired	(13,772)
Goodwill arising on acquisition	5,274

Non-controlling interests

The non-controlling interests (30%) in A Stars Group recognised at the acquisition date were measured by reference to the proportionate share of recognised amounts of net assets of A Stars Group and amounted to HK$4,131,000.

Net cash inflows arising on acquisition

	HK$'000
Consideration transferred	10,000
Less: netting off other receivable from a joint venture	(10,000)
Plus: bank balances and cash acquired	2
	2

A Star Group does not have contribution to the revenue and result of the Group as the completion date of the acquisition is 31 December 2013.

23. ACQUISITION OF A SUBSIDIARY *(Continued)*

(b) On 21 November 2012, the Group acquired an additional 32% interest in Rise Rich International Limited ("Rise Rich"), an existing associate of the Group, and the shareholder's loan of Rise Rich of HK$3,197,000, at a consideration of HK$3,200,000. Upon the completion of the acquisition, the Group owned 68% interest in Rise Rich and the transaction has been accounted for as business combination using the acquisition method. Rise Rich is engaged in retailing of gold and jewellery products in Hong Kong.

Acquisition-related costs relating to the above acquisition are immaterial and excluded from the cost of acquisition and have been recognised as an expense in profit or loss.

Assets and liabilities recognised at the date of acquisition are as follows:

	HK$'000
Inventories	20,426
Trade and other payables and accruals	(24,801)
Other borrowings	(3,197)
Shareholder's loan	(3,197)
Net liabilities at the date of acquisition	(10,769)
Assignment of shareholder's loan	3,197
	(7,572)

Goodwill arising on acquisition:

	HK$'000
Consideration transferred	3,200
Plus: Non-controlling interests (32% in Rise Rich)	(3,446)
Plus: Fair value of previously held interest	(3,877)
Less: Net liabilities acquired	7,572
Goodwill arising on acquisition and impairment loss recognised	3,449

Non-controlling interests

The non-controlling interests (32%) in Rise Rich recognised at the acquisition date were measured by reference to the proportionate share of recognised amounts of net liabilities of Rise Rich and amounted to HK$3,446,000.

	HK$'000
Remeasurement of previously held interest	
Fair value of previously held interest	(3,877)
Less: carrying amount	–
Loss on remeasurement of previously held interest in an associate	(3,877)
Net cash outflow arising on acquisition	
Consideration paid in cash	3,200

During the period, impairment loss on goodwill of HK$3,449,000 was recognised in profit or loss.

From the date of acquisition to 31 December 2012, Rise Rich does not have material contribution to the revenue and loss of the Group.

24. CONTINGENT LIABILITIES

As at 31 December 2013, the Group had an outstanding financial guarantee amounting to HK$3,000,000 (30 June 2013: HK$3,000,000) issued to a bank in respect of a banking facility granted to a joint venture.

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

25. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial asset (liabilities) included in the condensed consolidated statement of financial position	Fair value as at 31 December 2013 HK$'000	Fair value hierarchy	Valuation technique and key inputs
1) Derivative financial asset	4,601	Level 3	Black Scholes Model The key inputs are: Equity value, conversion price volatility, dividend yield and discount for lack of marketability.
2) Gold Loans	(363,923)	Level 2	Quoted bid prices of gold.
3) Bullion forward contracts	(22,285)	Level 2	Discounted cash flows. Inputs to valuation model are determined from observable forward gold price.

There were no transfer between level 1, 2 and 3 during the period from 1 July 2013 to 31 December 2013.

26. EVENTS AFTER THE REPORTING PERIOD

The Group had the following events after the period end, references of which are made to the joint announcement by the Company and Luk Fook Holdings (International) Limited dated 28 January 2014.

(a) On 28 January 2014, the Company, Luk Fook 3D Management Company Limited ("Luk Fook") and China Gold Silver Group Company Limited ("CGS"), a wholly-owned subsidiary of the Company, entered into an agreement ("CGS Agreement") pursuant to which, among other things, the Company agreed to sell 1,667 ordinary shares of USD1 each in the issued share capital of CGS (which represent 50% of the issued share capital of CGS as at 28 January 2014), to Luk Fook, upon and subject to the terms and conditions thereof. Upon the completion of the disposal, CGS shall continue to be accounted for as a subsidiary of the Company.

(b) Pursuant to CGS Agreement, among other things, at completion of the disposal of 50% interest in CGS, the Company will issue, and Luk Fook will subscribe for, the convertible bonds in the principal amount of HK$57,080,000 convertible into the Company's shares at the conversion price of HK$0.18 per share (subject to adjustments), upon and subject to the terms and conditions of the CGS Agreement.

Upon full conversion of the convertible bonds, a total of 317,111,111 shares of the Company ("HKRH Conversion Shares") will be issued to Luk Fook, representing approximately 9.99% of the existing issued share capital of the Company as at 28 January 2014, and approximately 9.09% of the issued share capital of the Company as enlarged by the issue of HKRH Conversion Shares.

(c) Pursuant to CGS Agreement, among other things, at completion of the disposal of 50% interest in CGS, CGS will grant share option to Luk Fook ("CGS Share Option") at a cash consideration of USD1, upon and subject to the terms and conditions of the CGS Agreement.

Upon exercise of the CGS Share Option, Luk Fook shall be entitled to subscribe for such number of new CGS shares, free from all encumbrances and ranking pari passu with other CGS shares then existing, that may result from dividing USD5,000,000 by the exercise price of CGS Share Option of USD24,390.24.