

interim report **2014-15**

OPPORTUNITIES

**“HKRH has opened a new chapter in
3D-GOLD’s development.....”
said Dr. Kennedy Wong,
Chairman of HKRH and 3D-GOLD Group**

- **IMAGE:** reinforcing our trendy image and promotion with glamorous and popular artists & celebrities
- **PRODUCT:** more K-gold jewellery will also be launched as it has a high level of creativity
- **CHANNEL:** opening new stores within the region, developing sales online platform & introducing premium products

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HKRH is poised to take advantage of excellent opportunities ahead.

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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.



“Butterfly Effect” won the Award-winning Work of the Open Group (Inspiration of Love) from the Chuk Kam Jewellery Design Competition 2014

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^d

Mr. Cheung Pak To, Patrick^d, BBS

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, d}

COMPANY SECRETARY

Mr. Fu Yat Ming^d

^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*

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

Level 22, Hopewell Centre

183 Queen's Road East

Hong Kong

STOCK CODE

2882

WEBSITE

www.hkrh.hk

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**”).

According to the Hong Kong Tourism Board, during the year of 2014 visitor arrivals from mainland China increased 16.0% over last year. Yet the retail value index for jewellery, watches & clocks, and valuable gifts as surveyed by the government fell 13.7% during the same period. In addition, the anti-corruption drive and the tight money situation on the mainland, as well as the political disputes in Hong Kong, all took their toll on consumer sentiments. High-priced gift and luxury items became slow moving.

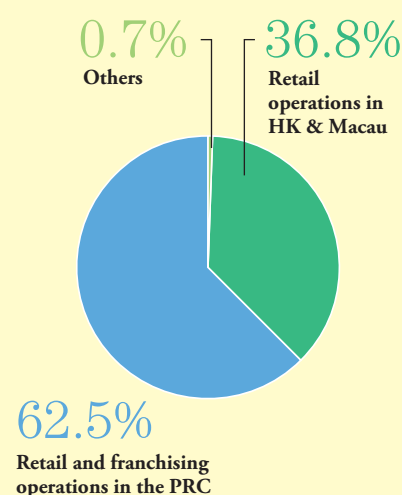
On 6 June 2014, the partnership between HKRH and Luk Fook 3D Management Company Limited (wholly-owned by Luk Fook Holdings (International) Limited (“**Luk Fook Group**”; stock code: 0590)) has opened a new chapter in 3D-GOLD’s business development blueprint.

Various measures have taken place since the collaboration in (i) adjusting the sales network by focusing on profit making stores and closing down non-performing stores; (ii) improving the franchisee system to strengthen the retail operations; (iii) continuing costs control; and (iv) improving cash flow.

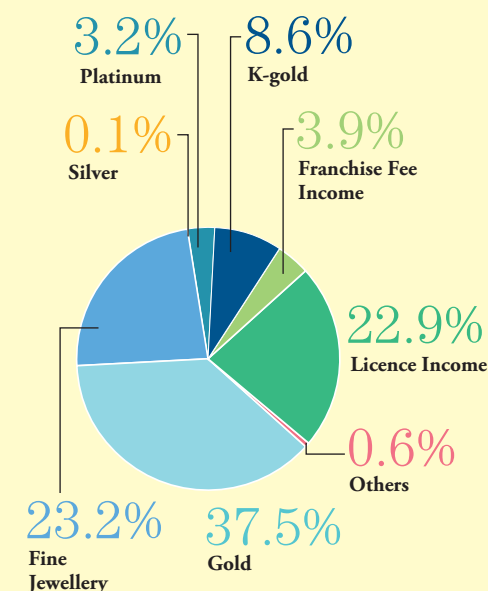
The Group recorded a turnover of approximately HK\$680.3 million for the Period, representing a decrease of 20.2% as compared to the turnover of approximately HK\$852.7 million last Year. The loss attributable to equity holders of the Company was approximately HK\$7.6 million for the Period compared to the loss of approximately HK\$69.7 million last period, representing an decrease of 89.0%. Included in the loss attributable to equity holders of the Company are non-cash items of gains in fair value of gold loans of HK\$32.3 million (2013: gain of HK\$13.5 million), loss in fair value of financial assets/liabilities at fair value through profit or loss of HK\$12.8 million (2013: gain of HK\$6.4 million) and gain on fair value of derivatives financial instruments of HK\$24.0 million (2013: gain of HK\$4.6 million).

Sales from retailing and franchising of gold and jewellery products in Mainland China have continued to be the major source of income, which accounted for 62.5% of turnover. The turnover of the Group for the Period amounted to HK\$680.3 million (2013: HK\$852.7 million), a decrease of 20.2% from Last Period. Mainland China recorded turnover of HK\$425.3 million, also a decrease of 43.9% from Last Period. As a result of the opening of 4 new stores and closure of 5 non-performing stores, Hong Kong and Macau recorded turnover of HK\$250.2 million, an increase of 168.2% from Last Period. We have recorded a decline in overall same-store-growth of 18% (Last Period: decline of 48%), of which same store growth in Mainland China decline by 42% (Last Period: decline of 49%) and same store growth in Hong Kong and Macau increase by 198% (Last Period: a decline of 27%).

Turnover Breakdown by Business



Gross Profit Analysis by Products



over

400

shops in China

398 shops in Mainland China

6 shops in Hong Kong

3 shops in Macau

22	Anhui
22	Beijing
8	Chongqing
9	Fujian
5	Gansu
73	Guangdong
19	Guangxi
1	Guizhou
1	Hainan
20	Hebei
9	Heilongjiang
7	Henan
6	Hong Kong
29	Hubei
3	Hunan
5	Inner Mongolia
33	Jiangsu
4	Jiangxi
2	Jilin
6	Liaoning
3	Macau
7	Ningxia
15	Shaanxi
64	Shandong
1	Shanghai
5	Shanxi
5	Sichuan
14	Tianjin
4	Xinjiang
3	Yunnan
2	Zhejiang

Management Discussion and Analysis

During the Period, the business model for our franchisee operation has changed from sales of goods to the receipt of license fees, i.e., franchisee made purchases with the authorised suppliers of the Group. This change has resulted in turnover from sales of goods to franchisee to decrease by HK\$192.0 million, while receiving a license fee of HK\$51.6 million. The license fee received is reflected directly to gross profit, this attributes to an increase in gross profit margin. Through working closely with our franchisees to improve their profitability, we expect improvements in the Group's financial results.

As a result of the closure of non-performing stores and the change in franchise system, the turnover and gross profit has decreased by 20.2% and 0.8%, respectively, for the Period to HK\$680.3 million and HK\$225.6 million, respectively. Despite of such decreases, the implemented initiatives has resulted in positive impact to the Group, whereby, the gross profit margin has increased from 26.7% to 33.2% for the Period. Sales of our principal products, gold products and gem-set jewellery, consisted of 58.6% (Last Period: 62.0%) and 20.2% (Last Period: 20.2%), respectively of total turnover.

In line with the decrease in turnover, the Group's selling and distribution expenses have decreased to HK\$165.1 million (Last Period: HK\$196.5 million), while the Group's general and administrative expenses have decreased to HK\$70.1 million (Last Period: HK\$86.8 million).

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\$1,640.0 million for the Period, a decrease of 4.6% from last year. In addition to above, various measures were undertaken and discussed in the "Business Review" section, whereby via working closely with our franchisees, through time, the brand value will be 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 have resulted in a gradual improvement on the Group's financial results for the Period, where there is a reduction in loss for the Period to HK\$20.9 million (2013: HK\$69.9 million).

INTERIM DIVIDEND

The Board has resolved not to recommend an interim dividend in respect of the six months ended 31 December 2014 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\$250.2 million (Last Period: HK\$93.3 million) and HK\$425.3 million (Last Period: HK\$758.7 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 2014, the Group has 6 points-of-sale in Hong Kong, 3 points-of-sale in Macau and 398 points-of-sale in Mainland China under the brandname "3D-GOLD". Of the points-of-sale in Mainland China, 93 are self-operated points-of-sale and 305 are franchise points-of-sale. During the Period, 53 new shops and counters have opened in Mainland China and 57 loss making stores were closed.

Management Discussion and Analysis

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, mainly subject to fixed rentals, with some of the lease arrangements are committed to paying either minimum guaranteed amounts or monthly payments in the amounts equivalent to certain prescribed percentage of monthly sales as rental payments, whichever is the higher.

Our strategy in Mainland China is to continue to focus on the growth of franchisee stores, with a target of 20% self-operated stores and 80% 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.

With a view to improve the profitability, the management has focused on the following areas with various measures: (i) to adjust the sales network by focusing on profit making stores and closing down 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) persistent costs control; and (v) improving cash flow.

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.

Brand Recognition and Marketing Programme

During the Period, the brand has held the shop openings, in Tsimshatsui of Hong Kong and Wuhan of PRC, with the new shop image. Besides, the Group has continued to be the Prize Sponsor of the “International KamCha Competition 2014 (HK Style Milk Tea)” for the 4th consecutive year. Also being the Title Sponsor of “Chef Nic”, a Chinese food travelogue show starring Nicholas Tse and featuring different celebrity guests per episode.

Products and awards

The Brand 3D-GOLD has continued to enrich its product portfolio by launching the latest “Happy Women Collection”, “Les Fleurs Collection” and “K • Love Collection” in September and December, 2014 respectively.

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 operation.

Management Discussion and Analysis

Clean Energy

On 16 February 2015, the Group has entered into an agreement for the acquisition of an option from Dr. Kennedy Wong Ying Ho, which gives the Group the right to require the allotment and issue by Gane Energy & Resources (China) Limited (“**Gane (China)**”), a company incorporated in Hong Kong, of such number of new shares representing 20% of share capital of Gane (China), at a consideration of HK\$4.8 million. Gane (China) through the license from Gane Energy & Resources Pty Ltd (“**Gane Australia**”), a company registered under Corporation Laws of Victoria, Australia, will have the right to use and enjoy certain intellectual property rights owned by Gane Australia, in Hong Kong, Macau, Taiwan and the PRC.

Gane Australia is principally engaged in the research and development of a new liquid fuel made from methanol and other oxygenated species for use in large industrial compression ignition engines. The fuel is targeted initially for use in electricity generators and heavy industrial equipment and later for mobile applications such as heavy mining trucks, trains and ships. The use of the fuel and the treatment of the engine exhaust are intended to result in exhausts which have concentrations of specific pollutants (such as sulphur dioxide, nitrogen oxides and particulate matter), that are lower than those of diesel, without the need for capital intensive exhaust treatments. The intellectual property rights are in relation to the new fuel, the operation of compression ignition engines using the new fuel, the treatment or utilisation of the engine exhaust and associated methods and systems.

Gane Australia has procured combustion and emission testing of the new fuel and further testing is planned in 2015. It is expected that the new fuel mentioned will be generally well received in the PRC market due to its environmental friendly features. With the Group’s strong business network in PRC, it is expected the Group can help initiate the new fuel in the PRC market, which will help develop the business of Gane China and in turn, benefit the Group.

Outlook

Looking ahead, we are positive about the business outlook in the medium to long run, despite short term market volatilities. 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 spread our good reputation for product design, quality, value and authenticity.

Mainland China will continue to be our major market. Although the economic growth in Mainland China is said to be lower than the targeted, it remains one of the fastest growing economies in the world and support the Group’s optimistic business outlook in the medium to long run.

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.

Management Discussion and Analysis

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 2014, the Group had total cash and cash equivalents amounting to HK\$571.0 million (30 June 2014: HK\$789.7 million) whilst total net assets were HK\$667.2 million (30 June 2014: HK\$686.3 million). The Group's net gearing ratio as at 31 December 2014 was 76% (30 June 2014: 57%), being a ratio of total borrowing of HK\$1,081.3 million (30 June 2014: HK\$1,181.4 million) less pledged bank deposits and bank balances and cash of HK\$571.0 million (30 June 2014: HK\$789.7 million) to total equity of HK\$667.2 million (30 June 2014: HK\$686.3 million). After taking into account the gold inventories of HK\$452.0 million (30 June 2014: HK\$357.7 million), the Group's adjusted net gearing ratio as at 31 December 2014 was 9% (30 June 2014: 5%), being a ratio of total borrowing less pledged bank deposits, bank balances and cash and gold inventories to total equity. As at 31 December 2014, the Group has available unutilized revolving banking facilities of HK\$240.5 million (30 June 2014: HK\$165.8 million).

Capital Commitments and Contingent Liabilities

Capital commitments and contingent liabilities of the Group as at 31 December 2014 are set out in notes 21 and 26 to the condensed consolidated financial statements.

Pledge of Assets

Pledge of assets of the Group as at 31 December 2014 is set out in note 23 to the condensed consolidated financial statements.

Financial Risk and Exposure

Except for the financial derivatives set out on the condensed consolidated statement of financial position and in notes 13, 16 and 17 to the condensed consolidated financial statements, the Group did not have any outstanding material foreign exchange contracts, interest or currency swaps, or other financial derivatives as at 31 December 2014.

Employees and Remuneration Policy

As at 31 December 2014, the Group had 1,562 employees (30 June 2014: 1,742). The Group's remuneration policy is periodically reviewed by the Remuneration Committee and the Board. Remuneration is determined with reference to market conditions, company performance, and individual qualifications and performance.

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

At 31 December 2014, the interests and short positions of the directors and chief executives of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

(a) Long positions in shares

Name of director	Number of ordinary shares			Total	% of issued ordinary shares
	Personal interests	Family interests	Corporate interests		
Executive Directors					
Dr. Wong, Kennedy Ying Ho	118,840,122	336,000 (Note a)	840,494,354 (Note b)	959,670,476	30.10%
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	—	—	—	—	—
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.

Other Information

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

Name of Directors	Capacity	Number of shares interested	% of issued ordinary shares
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)	34,983,067	1.10%
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%
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 34,983,067 bonus warrant shares underlying the bonus warrants held by Perfect Ace. Dr. Wong was deemed to be interested in these derivatives through his controlling interests in Perfect Ace.
- (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 2014.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2014, 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 issued ordinary shares
Perfect Ace Investments Limited	Beneficial owner (Note a)	757,703,752	23.76%
Limin Corporation	Beneficial owner (Note a)	82,790,602	2.60%
Dr. Liu Wangzhi	Corporate interest (Note b)	186,874,847	5.86%
	Beneficial owner	15,556,000	0.49%
Mr. Wen Jialong	Beneficial owner	175,861,957	5.52%
Mr. Yu Pan	Beneficial owner	165,000,000	5.17%
Mr. Wong Wai Sheung	Beneficial owner	5,831,430	0.18%
	Corporate interest (Note c)	45,000,000	1.41%
Mr. Chan Wai	Beneficial owner	1,000,000	0.03%
	Family interest	100,000	0.00%
	Corporate interest (Note c)	45,000,000	1.41%
Mr. Tse Moon Chuen	Beneficial owner	200,000	0.01%
	Corporate interest (Note c)	45,000,000	1.41%
Mr. Wong Koon Cheung	Corporate interest (Note c)	45,000,000	1.41%
Mr. Lee Shu Kuan	Corporate interest (Note c)	45,000,000	1.41%
Kwai Kee Cheung Jewellery & Goldsmith Company Limited	Corporate interest (Note c)	45,000,000	1.41%
Luk Fook (Control) Limited	Corporate interest (Note c)	45,000,000	1.41%
Luk Fook Holdings (International) Limited	Corporate interest (Note c)	45,000,000	1.41%

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.
- (c) The corporate interest represents the same lot of shares held by Luk Fook Holdings Company Limited. Luk Fook Holdings Company Limited is wholly owned by Luk Fook Investment (B.V.I.) Limited. Luk Fook Investment (B.V.I.) Limited is wholly owned by Luk Fook Holdings (International) Limited. Luk Fook (Control) Limited controls over one-third of the voting power of Luk Fook Holdings (International) Limited. Mr. Wong Wai Sheung is a discretionary beneficiary of the Wong's Family Trust (the "Trust"). The Trust is the beneficial owner of the entire issued share capital of Kwai Kee Cheung Jewellery & Goldsmith Company Limited which controls over one-third of the voting power of Luk Fook (Control) Limited. Mr. Wong Wai Sheung, Mr. Chan Wai, Mr. Tse Moon Chuen, Mr. Wong Koon Cheung and the administrator of Mr. Lee Shu Kuan collectively control (directly or indirectly) over one-half of the voting power of Luk Fook (Control) Limited. Accordingly, Mr. Wong Wai Sheung, Mr. Chan Wai, Mr. Tse Moon Chuen, Mr. Wong Koon Cheung, the administrator of Mr. Lee Shu Kuan, Kwai Kee Cheung Jewellery & Goldsmith Company Limited, Luk Fook (Control) Limited and Luk Fook Holdings (International) Limited are deemed to be interested in the 45,000,000 shares held by Luk Fook Holdings Company Limited in the Company.

Other Information

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

Name of substantial shareholders	Capacity	Number of shares interested	% of issued ordinary shares
Perfect Ace Investments Limited	Beneficial owner (Notes a & b)	34,983,067	1.10%
Dr. Liu Wangzhi	Corporate interest (Note c)	7,500,000	0.24%
Mr. Wen Jialong	Beneficial owner (Note d)	11,776,489	0.37%
	Beneficial owner (Note e)	20,000,000	0.63%
Mr. Wong Wai Sheung	Corporate interest (Note f)	317,111,111	9.95%
Mr. Chan Wai	Corporate interest (Note f)	317,111,111	9.95%
Mr. Tse Moon Chuen	Corporate interest (Note f)	317,111,111	9.95%
Mr. Wong Koon Cheung	Corporate interest (Note f)	317,111,111	9.95%
Mr. Lee Shu Kuan	Corporate interest (Note f)	317,111,111	9.95%
Kwai Kee Cheung Jewellery & Goldsmith Company Limited	Corporate interest (Note f)	317,111,111	9.95%
Luk Fook (Control) Limited	Corporate interest (Note f)	317,111,111	9.95%
Luk Fook Holdings (International) Limited	Corporate interest (Note f)	317,111,111	9.95%
Luk Fook 3D Management Company Limited	Beneficial owner (Note f)	317,111,111	9.95%

Notes:

- (a) These derivatives represent the 34,983,067 bonus warrant shares underlying the bonus warrants held by Perfect Ace.
- (b) 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.
- (c) 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.
- (d) These derivatives represent the 11,776,489 bonus warrant shares underlying the bonus warrants held by Mr. Wen Jialong.
- (e) These derivatives are in the form of share options of the Company held by Mr. Wen Jialong.
- (f) The corporate interest represents the same lot of convertible bond held by Luk Fook 3D Management Company Limited convertible into shares of the Company. Luk Fook 3D Management Company Limited is wholly owned by Luk Fook Investment (B.V.I.) Limited. Luk Fook Investment (B.V.I.) Limited is wholly owned by Luk Fook Holdings (International) Limited. Luk Fook (Control) Limited controls over one-third of the voting power of Luk Fook Holdings (International) Limited. Mr. Wong Wai Sheung is a discretionary beneficiary of the Trust. The Trust is the beneficial owner of the entire issued share capital of Kwai Kee Cheung Jewellery & Goldsmith Company Limited which controls over one-third of the voting power of Luk Fook (Control) Limited. Mr. Wong Wai Sheung, Mr. Chan Wai, Mr. Tse Moon Chuen, Mr. Wong Koon Cheung and the administrator of Mr. Lee Shu Kuan collectively control (directly or indirectly) over one-half of the voting power of Luk Fook (Control) Limited. Accordingly, Mr. Wong Wai Sheung, Mr. Chan Wai, Mr. Tse Moon Chuen, Mr. Wong Koon Cheung, the administrator of Mr. Lee Shu Kuan, Kwai Kee Cheung Jewellery & Goldsmith Company Limited, Luk Fook (Control) Limited and Luk Fook Holdings (International) Limited are deemed to be interested in the convertible bond held by Luk Fook 3D Management Company Limited.

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 2014.

Other Information

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 20 to the condensed consolidated financial statements.

PLACING OF SHARES

On 11 September 2013, Perfect Ace Investments Limited ("Perfect Ace") and Luk Fook Securities (HK) Limited, as placing agent, ("Placing Agent") entered into a placing agreement ("Placing Agreement") and Perfect Ace and the Company entered into a subscription agreement ("Subscription Agreement"), whereby Perfect Ace under the Placing Agreement agreed to place, through the Placing Agent, on a best effort basis, the aggregate of up to 217,000,000 shares of the Company ("Shares") held by Perfect Ace to independent investors at a price of HK\$0.18 per Share ("Placing"), and thereafter to subscribe for such number of Shares under the Subscription Agreement equivalent to the number of Shares actually sold by Perfect Ace under the Placing Agreement at a price of HK\$0.18 per Share ("Subscription"). The Board considered that the Placing and the Subscription represented an opportunity to raise additional funds for the Group while broadening the shareholder base and the capital base of the Company.

The Placing was completed on 12 September 2013 and 217,000,000 Shares were placed to not less than six places which were institutional or professional investors. The Subscription was completed on 24 September 2013 and 217,000,000 Shares were issued to Perfect Ace by the Company pursuant to a general mandate granted to the directors at the special general meeting of the Company held on 8 August 2013. The gross proceeds and net proceeds from the Placing and the Subscription were approximately HK\$39.06 million and HK\$38.18 million respectively. The Company has fully utilised the net proceeds of approximately HK\$38.18 million for the repayment of convertible bonds of the Company. The net proceeds raised per Share was approximately HK\$0.176 per Share. The closing price of the Shares as quoted on the Stock Exchange was HK\$0.182 per Share on 11 September 2013. Details of the above are set out in the announcements of the Company dated 12 September 2013 and 24 September 2013.

There was no placing of Shares for the six months ended 31 December 2014.

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.

Other Information

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 and Mr. Wong Kam Wing.

By Order of the Board

Hong Kong Resources Holdings Company Limited

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

Chairman

Hong Kong, 25 February 2015

Report on Review of Condensed Consolidated Financial Statements



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 17 to 42, which comprise the condensed consolidated statement of financial position as of 31 December 2014 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

25 February 2015

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 31 December 2014

	NOTES	Six months ended 31 December	
		2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Turnover	3(a)	680,336	852,677
Cost of sales		(454,778)	(625,365)
Gross profit		225,558	227,312
Other income		19,849	22,878
Selling expenses		(165,082)	(196,495)
General and administrative expenses		(70,156)	(86,771)
Impairment loss on trade receivables recognised		(3,628)	(710)
Other operating expenses		(14,868)	(10,606)
Loss from operations		(8,327)	(44,392)
Change in fair value of derivative financial instruments		24,009	4,601
Impairment loss on amount due from a joint venture recognised		(2,800)	–
Finance costs	4	(23,946)	(28,467)
Share of results of associates		–	(1,302)
Share of results of joint ventures		(15)	(13)
Loss before taxation	5	(11,079)	(69,573)
Taxation	6	(9,780)	(344)
Loss for the period		(20,859)	(69,917)
Other comprehensive income:			
Item that will not be reclassified to profit or loss:			
Exchange difference arising on translation		1,285	4,380
Total comprehensive expense for the period		(19,574)	(65,537)
Loss for the period attributable to:			
Owners of the Company		(7,642)	(69,720)
Non-controlling interests		(13,217)	(197)
		(20,859)	(69,917)
Total comprehensive expense for the period attributable to:			
Owners of the Company		(7,975)	(65,340)
Non-controlling interests		(11,599)	(197)
		(19,574)	(65,537)
Loss per ordinary share	8		
Basic		(HK\$0.002)	(HK\$0.023)
Diluted		(HK\$0.008)	(HK\$0.023)

Condensed Consolidated Statement of Financial Position

As at 31 December 2014

	NOTES	31 December 2014 HK\$'000 (Unaudited)	30 June 2014 HK\$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	9	56,605	63,845
Deposits for acquisition of property, plant and equipment		–	263
Other receivables and deposits paid	10	15,473	12,779
Goodwill		9,995	9,995
Intangible assets	11	170,641	174,718
Interests in joint ventures		3,498	3,513
Available-for-sale investments		3,388	–
Deferred tax assets		28,773	31,807
		288,373	296,920
Current assets			
Inventories		988,818	822,842
Trade and other receivables and deposits paid	10	258,595	195,720
Loans to related parties	12	73,362	123,177
Amount due from a joint venture		205	1,963
Financial assets at fair value through profit or loss	13	–	10,949
Tax recoverable		143	372
Pledged bank deposits		396,337	431,716
Bank balances and cash		174,641	357,952
		1,892,101	1,944,691
Current liabilities			
Trade and other payables, accruals and deposits received	14	334,413	258,549
Amounts due to joint ventures		3,618	3,628
Obligations under finance leases		111	148
Bank and other borrowings	15	444,394	510,162
Gold loans	16	436,274	494,329
Loan from a non-controlling shareholder of a subsidiary	18	20,000	–
Tax liabilities		9,527	3,209
		1,248,337	1,270,025
Net current assets		643,764	674,666
Total assets less current liabilities		932,137	971,586

Condensed Consolidated Statement of Financial Position

As at 31 December 2014

	NOTES	31 December 2014 HK\$'000 (Unaudited)	30 June 2014 HK\$'000 (Audited)
Non-current liabilities			
Convertible bonds	17	60,336	56,470
Derivative financial instruments	17	42,400	66,409
Obligations under finance leases		168	242
Bank and other borrowings	15	20,000	20,000
Loan from a non-controlling shareholder of a subsidiary	18	100,000	100,000
Deferred tax liabilities		42,023	42,213
		264,927	285,334
NET ASSETS		667,210	686,252
CAPITAL AND RESERVES			
Share capital	19	31,885	31,885
Reserves		416,317	423,760
Equity attributable to owners of the Company		448,202	455,645
Non-controlling interests		219,008	230,607
TOTAL EQUITY		667,210	686,252

Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 December 2014

	Attributable to owners of the Company										Non-controlling interests	Total
	Ordinary share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Other reserve HK\$'000 (Note (a))	Share option reserve HK\$'000	Warrant reserve HK\$'000	Exchange reserve HK\$'000	PRC statutory reserve HK\$'000	Retained earnings (accumulated losses) HK\$'000 (Note (b))	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)
Transfer between reserves	-	-	-	-	-	-	-	1,510	(1,510)	-	-	-
Equity-settled share-based payments	-	-	-	-	1,822	-	-	-	-	1,822	-	1,822
Exercise of warrants	-	14	-	-	-	(4)	-	-	-	10	-	10
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
Acquisition of subsidiaries (note 25)	-	-	-	-	-	-	-	-	-	-	4,121	4,121
Acquisition of additional interests in a subsidiary	-	-	-	(3,643)	-	-	-	-	-	(3,643)	3,643	-
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
At 1 July 2014 (audited)	31,885	680,877	55,327	(256,051)	18,762	21,820	44,684	25,657	(167,316)	455,645	230,607	686,252
Loss for the period	-	-	-	-	-	-	-	-	(7,642)	(7,642)	(13,217)	(20,859)
Other comprehensive (expense) income for the period	-	-	-	-	-	-	(333)	-	-	(333)	1,618	1,285
Total comprehensive expense for the period	-	-	-	-	-	-	(333)	-	(7,642)	(7,975)	(11,599)	(19,574)
Transfer between reserves	-	-	-	-	-	-	-	1,309	(1,309)	-	-	-
Equity-settled share-based payments	-	-	-	-	531	-	-	-	-	531	-	531
Exercise of warrants	-	1	-	-	-	-	-	-	-	1	-	1
Lapse of share options	-	-	-	-	(1,326)	-	-	-	1,326	-	-	-
At 31 December 2014 (unaudited)	31,885	680,878	55,327	(256,051)	17,967	21,820	44,351	26,966	(174,941)	448,202	219,008	667,210

Notes:

(a) Other reserve comprises:

- an amount of HK\$213,605,000 which 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 ("CGS"), a subsidiary of the Company, being acquired from the non-controlling shareholders on 14 May 2010;
- an amount of HK\$3,643,000 which represents the difference between the fair value of the consideration paid and the carrying amount of the net liabilities 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; and
- an amount of HK\$38,803,000 in relation to the disposal of partial interest in CGS, which represents the difference between the fair value of the consideration (net of transaction cost) and proceeds received and the aggregate amount of (i) the carrying amount of the net assets attributable to the disposed interest in CGS to an independent third party (the "Purchaser"), (ii) the fair value of the CGS Share Option (note 17(b)(ii)) and (iii) the fair values of the liability component and the embedded derivative of convertible bonds due 2019 issued to the Purchaser, on 6 June 2014.

(b) People's Republic of China (the "PRC") statutory reserve of the Group represents general and development fund reserve applicable to the PRC subsidiaries which was established in accordance with the relevant regulations.

Condensed Consolidated Statement of Cash Flows

For the six months ended 31 December 2014

	NOTE	Six months ended 31 December	
		2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Net cash (used in) from operating activities		(175,033)	90,351
Investing activities			
Interest received		13,456	7,171
Purchase of property, plant and equipment		(13,093)	(9,715)
Proceeds from disposal of property, plant and equipment		1,101	2,862
Additions to intangible assets		(9)	–
Acquisition of available-for-sale investments		(3,388)	–
Net cash and cash equivalent acquired from acquisition of a subsidiary	25	–	2
Repayments of loans from related parties		50,594	–
Advance to a joint venture		(1,052)	–
Loan to an independent third party		–	(63,283)
Placement of pledged bank deposits		(158,035)	(170,192)
Withdrawal of pledged bank deposits		196,144	61,199
Net cash from (used in) investing activities		85,718	(171,956)
Financing activities			
Interest paid		(21,210)	(23,672)
Advance from a joint venture		–	654
Repayment of convertible bonds		–	(211,200)
New bank and other borrowings		189,500	237,905
Repayment of bank and other borrowings		(256,086)	(217,871)
New gold loans		125,676	349,692
Repayment of gold loans		(149,101)	(102,290)
Loan from a non-controlling shareholder of a subsidiary		20,000	–
Advance from non-controlling interests of a subsidiary		–	439
Proceeds from the issue of new shares by way of a placing		–	38,442
Exercise of warrants		1	–
Net cash (used in) from financing activities		(91,220)	72,099
Net decrease in cash and cash equivalents		(180,535)	(9,506)
Cash and cash equivalents at beginning of the period		357,952	122,639
Effect of foreign exchange rate changes		(2,776)	(2,946)
Cash and cash equivalents at end of the period, represented by bank balances and cash		174,641	110,187

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2014

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 2014 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 30 June 2014.

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 and 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 2010-2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC)-Int 21	Leases

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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2014

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	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Sales of goods	615,226	789,366
Franchise income	8,791	8,802
Licence income	51,554	54,509
Television programmes and content production income	4,765	–
	680,336	852,677

(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:

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

Major products of the Group include gold products and jewellery products.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2014

3. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

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 2014 (unaudited)

	Reportable segments		Total HK\$'000	Others (Note) HK\$'000	Consolidated HK\$'000
	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			
REVENUE					
External sales	425,325	250,246	675,571	4,765	680,336
RESULT					
Segment results	34,955	(5,608)	29,347	(11,182)	18,165
Other income					19,849
Unallocated staff related expenses					(17,408)
Other unallocated corporate expenses					(8,900)
Advertising, promotion and business development expenses					(15,450)
Equity-settled share-based payments					(531)
Change in fair value of derivative financial instruments					24,009
Impairment loss on other receivables recognised					(632)
Impairment loss on amount due from a joint venture recognised					(2,800)
Impairment loss on intangible assets recognised					(3,420)
Finance costs					(23,946)
Share of results of joint ventures					(15)
Loss before taxation					(11,079)
Taxation					(9,780)
Loss for the period					(20,859)

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2014

3. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

For the six months ended 31 December 2013 (unaudited)

	Reportable segments		Total HK\$'000	Others (Note) HK\$'000	Consolidated HK\$'000
	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			
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 joint ventures					(13)
Loss before taxation					(69,573)
Taxation					(344)
Loss for the period					(69,917)

Segment profit (loss) represents the profit (loss) of each segment without allocation of other income, advertising, promotion and business development expenses, corporate staff and directors' salaries, equity-settled share-based payments, change in fair value of derivative financial instruments, impairment loss on other receivables recognised, impairment loss on amount due from a joint venture recognised, impairment loss on intangible assets recognised, 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 online marketing, e-commerce, and television programmes and content production.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2014

4. FINANCE COSTS

	Six months ended 31 December	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interests on:		
Bank and other borrowings wholly repayable within five years	10,495	13,070
Gold loans	7,647	5,612
Obligations under finance leases	7	11
Effective interest on convertible bonds (note 17(a))	5,734	6,457
Other finance costs	63	3,317
	23,946	28,467

5. LOSS BEFORE TAXATION

	Six months ended 31 December	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss before taxation has been arrived at after charging (crediting):		
Advertising, promotion and business development expenses	15,450	21,893
Amortisation of intangible assets	666	–
Change in fair value of gold loans (note 16)	(32,269)	(13,535)
Change in fair value of financial assets/liabilities at fair value through profit or loss	12,806	(6,403)
Cost of inventories recognised as an expense	458,485	637,847
Depreciation of property, plant and equipment	13,968	11,944
Equity-settled share-based payments (note 20(b))	531	1,822
Exchange gain, net	(4,913)	(2,691)
Loss on disposal of property, plant and equipment	5,791	1,229
Impairment loss on other receivables recognised	632	–
Impairment loss on intangible assets recognised (included in “other operating expenses”) (note 11(c))	3,420	–
Interest income	(13,456)	(13,968)
Operating lease rentals		
– contingent rental	44,925	63,490
– minimum lease payments	35,163	24,521

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2014

6. TAXATION

	Six months ended 31 December	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax:		
Hong Kong Profits Tax	2	596
PRC Enterprise Income Tax	6,941	11,322
	6,943	11,918
Overprovision in prior years:		
PRC Enterprise Income Tax	–	(1,940)
Deferred taxation	2,837	(9,634)
	9,780	344

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profits for both periods.

Pursuant to the Enterprise Income Tax Law and Implementation Rules of the PRC, subsidiaries of the Company established in the PRC is subject to an income tax rate of 25% for both periods.

No provision for the Macau Complementary Tax has been made as the Group has no assessable profits in Macau for both periods.

7. DIVIDENDS

The Board has resolved not to recommend an interim dividend in respect of the six months ended 31 December 2014 and 31 December 2013 to the holders of ordinary shares of the Company.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2014

8. LOSS PER ORDINARY SHARE

	Six months ended 31 December	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss:		
Loss for the period attributable to owners of the Company for the purpose of basic loss per ordinary share	(7,642)	(69,720)
Effect of dilutive potential ordinary share:		
Interest on CB 2019 (as defined in note 17(a))	2,703	–
Change in fair value in derivatives embedded in CB 2019	(21,436)	–
Loss for the period attributable to owners of the Company for the purpose of diluted loss per ordinary share	(26,375)	(69,720)

	'000	'000
	(Unaudited)	(Unaudited)
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic loss per ordinary share	3,188,494	3,071,401
Effect of dilutive potential ordinary shares:		
CB 2019	317,111	–
Weighted average number of ordinary shares for the purpose of diluted loss per ordinary share	3,505,605	3,071,401

Note:

The computation of diluted loss per ordinary share for the six months ended 31 December 2014 did not assume the exercise of certain share options and bonus warrants because their exercise price is higher than the average share price, and the conversion of CGS CB 2018 (as defined in note 17(a)) and the Group's certain outstanding bonus warrants since their conversion would result in a decrease in loss per ordinary share.

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.

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of HK\$13,356,000 (six months ended 31 December 2013: HK\$7,390,000).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2014

10. TRADE AND OTHER RECEIVABLES AND DEPOSITS PAID

	31 December 2014 HK\$'000 (Unaudited)	30 June 2014 HK\$'000 (Audited)
Other receivables and deposits paid under non-current assets represent:		
Rental and utility deposits	15,473	12,779
Trade and other receivables and deposits paid under current assets comprise:		
Trade receivables	160,795	125,096
Less: allowance for doubtful debts	(15,150)	(39,243)
	145,645	85,853
Other receivables and deposits paid	112,950	109,867
	258,595	195,720

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 as at 31 December 2014 are trade receivables from associates of a non-controlling shareholder of a subsidiary amounting to HK\$729,000 (30 June 2014: nil). Included in trade receivables as at 30 June 2014 were trade receivables from a joint venture amounting to HK\$4,454,000.

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 2014 HK\$'000 (Unaudited)	30 June 2014 HK\$'000 (Audited)
0-30 days	116,042	67,253
31-60 days	15,951	7,532
61-90 days	5,513	2,480
Over 90 days	8,139	8,588
	145,645	85,853

Included in the allowance for doubtful debts as at 30 June 2014 were individually impaired trade receivables from an independent customer of HK\$27,710,000, which the Group took legal action against this customer and made full impairment loss of HK\$27,710,000 based on the court finding on 22 September 2013. Such trade receivables and allowance were fully written off in the current period. The remaining allowance of doubtful debts of HK\$15,150,000 (30 June 2014: HK\$11,533,000) mainly relate to customers which are under liquidation or in severe financial difficulties. It was assessed that the amounts are unlikely to be recovered. The Group does not hold any collateral over these balances.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2014

11. INTANGIBLE ASSETS

	Notes	31 December 2014 HK\$'000 (Unaudited)	30 June 2014 HK\$'000 (Audited)
Trademarks	(a)	168,066	168,066
License	(b)	1,050	1,125
Core technology and Apps	(c)	1,525	5,527
		170,641	174,718

Notes:

- (a) The trademarks have contractual lives of 10 years commencing in December 2008 and April 2009 of “3D-Gold”, 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 2014, 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 2014: 17%). The cash flows beyond the five-year period are extrapolated using a 3% (30 June 2014: 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.
- (c) Core technology includes packaged contents and application templates for production of software, Apps for sales, Apps under development and completed Apps for the application for mobile devices. The costs include expenditure (including but not limited to staff costs, depreciation charges of certain computer equipment, production office rent and rates, outsourced freelance costs and IT development fees) that are directly attributable to the development of the application for mobile devices. The costs are amortised on a straight-line method to profit or loss over the estimated useful life of 5 years. Apps under development are not amortised.

During the period, management of the Group conducted impairment review on the core technology and Apps and determined the carrying amount of such intangible assets cannot be fully recovered and therefore, impairment loss of HK\$3,420,000 (six months ended 31 December 2013: nil) is recognised in profit or loss.

12. LOANS TO RELATED PARTIES

As announced by the Company on 5 March 2013, 17 April 2013 and 29 May 2013, the Group advanced loans to Mr. Wen Jialong (“Mr. Wen”), a substantial shareholder of the Company, and 深圳市福緣家庭服務有限公司 (Shenzhen Fuyuan Family Services Company Limited) (“Fuyuan”), a company established in the PRC with limited liability which is beneficially owned as to 76% by Mr. Wen and 24% by the spouse of Mr. Wen. The outstanding balance of the loans amounting to Renminbi (“RMB”) 58,000,000 (equivalent to HK\$73,362,000) is unsecured, interest bearing and repayable within one year after the end of the reporting period.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2014

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss as at 30 June 2014 represented bullion forward contracts of HK\$10,949,000.

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 were measured at fair value at the end of the reporting period. The fair values were 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 30 June 2014 amounted to United States dollars ("US\$") 21,490,000 which had maturity period up to 6 to 12 months since date of inception.

All bullion forward contracts were matured during the current period.

14. TRADE AND OTHER PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

	31 December 2014 HK\$'000 (Unaudited)	30 June 2014 HK\$'000 (Audited)
Trade payables	163,295	82,979
Deposits received from customers (Note (a))	31,904	32,229
Franchisee guarantee deposits (Note (b))	68,340	63,221
Other payables, accruals and other deposits	70,874	80,120
	334,413	258,549

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".

Included in trade payables as at 31 December 2014 are trade payables due to a joint venture and associates of a non-controlling shareholder of a subsidiary amounting to HK\$864,000 (30 June 2014: HK\$859,000) and HK\$71,859,000 (30 June 2014: nil), respectively.

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

	31 December 2014 HK\$'000 (Unaudited)	30 June 2014 HK\$'000 (Audited)
0-30 days	92,209	68,265
31-60 days	24,527	8,306
61-90 days	10,058	1,493
Over 90 days	36,501	4,915
	163,295	82,979

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15. BANK AND OTHER BORROWINGS

	31 December 2014 HK\$'000 (Unaudited)	30 June 2014 HK\$'000 (Audited)
Bank borrowings:		
Unsecured floating rate bank loans	7,500	27,500
Secured floating rate bank loans	433,100	478,891
	440,600	506,391
Other borrowings:		
Unsecured fixed rate other borrowing		
– An independent third party	20,000	20,000
Secured fixed rate other borrowing		
– An independent third party	3,794	3,771
	23,794	23,771
	464,394	530,162
Secured	436,894	482,662
Unsecured	27,500	47,500
	464,394	530,162
	31 December 2014 HK\$'000 (Unaudited)	30 June 2014 HK\$'000 (Audited)
Carrying amounts repayable:		
On demand or within one year*	350,794	371,971
More than five years*	20,000	20,000
	370,794	391,971
Carrying amount of bank loans that contain a repayment on demand clause (shown under current liabilities):		
Repayable within one year*	93,600	138,191
	464,394	530,162
Less: Amounts due within one year and shown under current liabilities	(444,394)	(510,162)
Amounts shown under non-current liabilities	20,000	20,000

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

Notes to the Condensed Consolidated Financial Statements

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16. 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 2014 and 30 June 2014, the gold loans are denominated in RMB, interest bearing at a weighted average rate of 4.77% (30 June 2014: 4.94%) per annum with original maturity of twelve months, and secured by inventories with a carrying amount of HK\$695,674,000 (30 June 2014: HK\$691,302,000), bank deposits of HK\$14,006,000 (30 June 2014: HK\$32,851,000) and trade receivables of HK\$82,499,000 (30 June 2014: HK\$40,990,000).

The gain arising from change in fair value of gold loans of HK\$32,269,000 (six months ended 31 December 2013: HK\$13,535,000) has been recognised in profit or loss for the six months ended 31 December 2014. 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. CONVERTIBLE BONDS

(a) Convertible bonds

Convertible bonds due 2013 ("CB 2013")

During the six months ended 31 December 2013, the Company redeemed the CB 2013 at HK\$237,600,000, representing 110% of the outstanding principal amount on maturity date 14 September 2013 in accordance with the term of the relevant subscription agreement for the issue of CB 2013.

During the six months ended 31 December 2013, the effective interest rate of CB 2013 was 12.02% per annum.

Convertible bonds due 2019 ("CB 2019") and CGS Convertible bonds due 2018 ("CGS CB 2018")

The movement of the liability components of the convertible bonds for the current period are set out as below:

	Liability component		Total
	CB 2019	CGS CB 2018	
	HK\$'000	HK\$'000	HK\$'000
At 1 July 2014	28,928	27,542	56,470
Coupon interest accrued at 1 July 2014 and included in other payables	132	900	1,032
Interest charged during the period	2,703	3,031	5,734
Payment of coupon interest	(975)	(1,912)	(2,887)
Coupon interest accrued at 31 December 2014 and included in other payables	(13)	—	(13)
At 31 December 2014	30,775	29,561	60,336

During the six months ended 31 December 2014, the effective interest rates of CB 2019 and CGS CB 2018 were 19.47% and 18.02% per annum respectively.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2014

17. CONVERTIBLE BONDS (Continued)

(b) Derivative financial instruments

	31 December 2014 HK\$'000 (Unaudited)	30 June 2014 HK\$'000 (Audited)
Derivatives embedded in convertible bonds (i)		
CB 2019	34,600	56,036
CGS CB 2018	4,600	5,842
CGS Share Option (ii)	39,200 3,200	61,878 4,531
	42,400	66,409

(i) Derivatives embedded in convertible bonds

The fair values of the derivatives embedded in CB 2019 and CGS CB 2018 at respective date of issue, 30 June 2014 and 31 December 2014 are based on valuation carried out on those dates by an independent valuer. The change in fair value of HK\$22,678,000 has been credited to profit or loss for the six months ended 31 December 2014.

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:

CB 2019	At issue date (Note)	At 31 December 2014
Share price	HK\$0.26	HK\$0.19
Exercise price	HK\$0.18	HK\$0.18
Expected dividend yield	0.00%	0.00%
Volatility	48.65%	47.77%
CGS CB 2018	At 30 June 2014	At 31 December 2014
Share price	US\$18,322.31	US\$17,884.82
Exercise price	US\$24,390.24	US\$24,390.24
Expected dividend yield	3.03%	2.95%
Volatility	34.86%	36.47%

Note: Since the date of issue for CB 2019 (which is 6 June 2014) is close to 30 June 2014, the directors of the Company consider that the fair value of the derivatives embedded in CB 2019 at the date of issue approximates its fair value at 30 June 2014.

(ii) Share Option issued by CGS ("CGS Share Option")

The fair value of the CGS Share Option at 31 December 2014 is HK\$3,200,000 (30 June 2014: HK\$4,531,000). The change in fair value of HK\$1,331,000 (six months ended 31 December 2013: nil) has been credited to profit or loss for the six months ended 31 December 2014.

Notes to the Condensed Consolidated Financial Statements

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17. CONVERTIBLE BONDS (Continued)

(b) Derivative financial instruments (Continued)

(ii) Share Option issued by CGS ("CGS Share Option") (Continued)

The fair value of the CGS Share Option issued is calculated using trinomial option pricing model. The key inputs into the model at the respective dates are as follows:

	At issue date (Note)	At 31 December 2014
Share price	US\$19,164.67	US\$17,884.82
Exercise price	US\$24,390.24	US\$24,390.24
Expected dividend yield	3.02%	2.95%
Volatility	36.49%	36.47%

Note: The fair value of the CGS Share Option at 31 December 2014 and its issue date (which is 6 June 2014) is based on valuation carried out on those dates by an independent professional valuer. Since the date of issue is close to 30 June 2014, the directors of the Company consider that the fair value of CGS Share Option at the date of issue approximates its fair value at 30 June 2014.

18. LOANS FROM A NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY

Included in loans from a non-controlling shareholder of a subsidiary is an amount of HK\$20,000,000 which is unsecured, bears interest at 2% per annum and repayable on 4 May 2015. Accordingly, the amount is classified as current liabilities.

The remaining amount of HK\$100,000,000 is unsecured, interest free and mutually agreed by the Group and the lender that the loan will not be repaid within one year after the end of the reporting period. Accordingly, the amount is classified as non-current liabilities.

19. SHARE CAPITAL

	Number of shares '000	Amount HK\$'000
Authorised:		
At 1 July 2014 and 31 December 2014		
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		
At 1 July 2014	3,188,491	31,885
Exercise of warrants (Note)	3	–
At 31 December 2014	3,188,494	31,885
Total:		
At 1 July 2014	3,188,491	31,885
At 31 December 2014	3,188,494	31,885

Note: During the period, the Company issued 3,200 (six months ended 31 December 2013: 40,420) ordinary shares of HK\$0.01 at the exercise price of HK\$0.245 per ordinary share upon exercise of the bonus warrants granted by the Company.

Notes to the Condensed Consolidated Financial Statements

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20. 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 2013/2014 annual report of the Company.

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

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

Eligible person	Date of grant	Exercise period	Exercise price HK\$	Number of options		
				Outstanding as at 1.7.2014	Lapsed during the period	Outstanding as at 31.12.2014
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	(1,163,380)	3,839,154
	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	(1,000,000)	7,800,000
	25.1.2013	28.2.2014 to 24.1.2023	0.2288	8,800,000	(1,000,000)	7,800,000
	25.1.2013	28.2.2015 to 24.1.2023	0.2288	8,800,000	(1,000,000)	7,800,000
				42,924,164	(4,163,380)	38,760,784
Employees	20.7.2009	20.7.2009 to 19.7.2019	1.2980	1,163,380	—	1,163,380
	25.1.2013	28.2.2013 to 24.1.2023	0.2288	4,100,000	—	4,100,000
	25.1.2013	28.2.2014 to 24.1.2023	0.2288	6,400,000	(1,300,000)	5,100,000
	25.2.2013	28.2.2015 to 24.1.2023	0.2288	7,900,000	(1,300,000)	6,600,000
	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
				39,563,380	(2,600,000)	36,963,380
Consultants	20.7.2009	20.7.2009 to 19.7.2019	1.2980	232,676	—	232,676
	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
				20,903,616	—	20,903,616
				103,391,160	(6,763,380)	96,627,780
Exercisable at the end of the period				76,691,160		72,227,780
Weighted average exercise price				0.517		0.525

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2014

20. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(a) (Continued)

Eligible person	Date of grant	Exercise period	Exercise price HK\$	Number of options		
				Outstanding as at 1.7.2013	Lapsed during the period	Outstanding as at 31.12.2013
Directors	23.1.2009	23.1.2009 to 22.1.2019	0.428	1,051,208	—	1,051,208
	20.7.2009	20.7.2009 to 19.7.2019	1.298	5,002,534	—	5,002,534
	26.7.2011	26.7.2011 to 25.7.2021	0.481	2,326,760	—	2,326,760
	26.7.2011	26.7.2012 to 25.7.2021	0.481	3,490,140	—	3,490,140
	26.7.2011	26.7.2013 to 25.7.2021	0.481	4,653,522	—	4,653,522
	25.1.2013	28.2.2013 to 24.1.2023	0.229	8,800,000	—	8,800,000
	25.1.2013	28.2.2014 to 24.1.2023	0.229	8,800,000	—	8,800,000
	25.1.2013	28.2.2015 to 24.1.2023	0.229	8,800,000	—	8,800,000
				42,924,164	—	42,924,164
Employees	20.7.2009	20.7.2009 to 19.7.2019	1.298	1,745,070	—	1,745,070
	25.1.2013	28.2.2013 to 24.1.2023	0.229	11,200,000	(500,000)	10,700,000
	25.1.2013	28.2.2014 to 24.1.2023	0.229	11,200,000	(500,000)	10,700,000
	25.1.2013	28.2.2015 to 24.1.2023	0.229	11,200,000	(500,000)	10,700,000
	27.2.2013	28.2.2013 to 24.1.2023	0.229	10,000,000	—	10,000,000
	27.2.2013	28.2.2014 to 24.1.2023	0.229	10,000,000	—	10,000,000
	27.2.2013	28.2.2015 to 24.1.2023	0.229	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	1.298	814,366	—	814,366
	13.4.2010	13.4.2010 to 12.4.2020	1.203	2,326,761	—	2,326,761
	13.4.2010	13.7.2010 to 12.4.2020	1.203	5,816,901	—	5,816,901
	13.4.2010	13.10.2010 to 12.4.2020	1.203	5,816,901	—	5,816,901
	13.4.2010	13.1.2011 to 12.4.2020	1.203	6,710,377	—	6,710,377
	26.7.2011	26.7.2011 to 25.7.2021	0.481	581,690	—	581,690
	26.7.2011	26.7.2012 to 25.7.2021	0.481	872,535	—	872,535
	26.7.2011	26.7.2013 to 25.7.2021	0.481	1,163,380	—	1,163,380
	25.1.2013	28.2.2013 to 24.1.2023	0.229	900,000	—	900,000
	25.1.2013	28.2.2014 to 24.1.2023	0.229	900,000	—	900,000
	25.1.2013	28.2.2015 to 24.1.2023	0.229	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 year				67,455,243		72,722,145
Weighted average exercise price				0.464		0.466

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For the six months ended 31 December 2014

20. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

- (b) The Group recognised the total expense of HK\$531,000 (six months ended 31 December 2013: HK\$1,822,000) in profit or loss for the six months ended 31 December 2014 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.

21. CAPITAL COMMITMENTS

	31 December 2014 HK\$'000 (Unaudited)	30 June 2014 HK\$'000 (Audited)
Capital expenditure in respect of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	15,178	2,147

22. 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 2014 HK\$'000 (Unaudited)	30 June 2014 HK\$'000 (Audited)
Within one year	72,637	64,969
In the second to fifth year inclusive	94,282	81,627
More than five years	379	528
	167,298	147,124

Leases are negotiated for lease terms of one to ten 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.

23. PLEDGE OF ASSETS

As at 31 December 2014, the Group's inventories, bank deposits and trade receivables with a carrying amount of HK\$695,674,000 (30 June 2014: HK\$691,302,000), HK\$396,337,000 (30 June 2014: HK\$431,716,000) and HK\$82,499,000 (30 June 2014: HK\$40,990,000), 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\$5,059,000) (30 June 2014: RMB4,000,000 (equivalent to HK\$5,028,000)) were pledged to an independent third party as securities for other borrowing of HK\$3,794,000 (30 June 2014: HK\$3,771,000) to the Group.

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24. 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	
		2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
A solicitors firm in which a director of the Company is a partner	Company secretariat and legal services fee	45	1,028
A joint venture	Purchase of jewellery	2	235
Associates of a non-controlling shareholder of a subsidiary	Purchase of jewellery	76,143	—
An associate of a non-controlling shareholder of a subsidiary	Sales of jewellery	685	—
An associate of a non-controlling shareholder of a subsidiary	Specialty fee	111	—
An associate of a non-controlling shareholder of a subsidiary	Subcontracting fee	266	—
Shareholder of a subsidiary	Loan interest	62	—
Related parties	Interest income	4,968	—

As at 31 December 2014 and 30 June 2014, 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 26.

(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, 12, 14 and 18.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2014

24. RELATED PARTY DISCLOSURES (Continued)

(c) Compensation of key management personnel

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

	Six months ended 31 December	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Fees	695	1,073
Salaries	4,636	5,466
Retirement benefit costs	27	38
Equity-settled share-based payments	645	698
	6,003	7,275

25. ACQUISITION OF SUBSIDIARIES

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

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For the six months ended 31 December 2014

25. ACQUISITION OF SUBSIDIARIES (Continued)

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.

The aggregate amount of non-controlling interests of A Stars Group arising on the acquisition was HK\$4,121,000.

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.

26. CONTINGENT LIABILITIES

As at 31 December 2014, the Group had an outstanding financial guarantee amounting to HK\$3,000,000 (30 June 2014: 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.

27. 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).

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For the six months ended 31 December 2014

27. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

Financial asset (liabilities) included in the condensed consolidated statement of financial position	Fair value as at		Fair value hierarchy	Valuation technique and key inputs
	31 December 2014 HK\$'000	30 June 2014 HK\$'000		
1) Bullion forward contracts	–	10,949	Level 2	Discounted cash flows Inputs to valuation model are determined from observable forward gold price.
2) Gold loans	(436,274)	(494,329)	Level 2	Quoted bid prices of gold
3) Conversion option	(39,200)	(61,878)	Level 3	Trinomial option pricing model The fair value is estimated based on the risk free rate, discount rate, share price, volatility of the share price of the Company and CGS, dividend yield and exercise price.
4) CGS Share Option	(3,200)	(4,531)	Level 3	Trinomial option pricing model The fair value is estimated based on the risk free rate, discount rate, share price, volatility of the share price of the CGS, dividend yield and exercise price.

There were no transfer between level 1, 2 and 3 during the period from 1 July 2014 to 31 December 2014.

28. EVENTS AFTER THE END OF THE REPORTING PERIOD

The Group had the following events after the end of the reporting period:

On 16 February 2015, the Group has entered into an agreement for the acquisition of an option from Dr. Kennedy Wong Ying Ho, which gives the Group the right to require the allotment and issue by Gane Energy & Resources (China) Limited (“Gane (China)”), a company incorporated in Hong Kong, of such number of new shares representing 20% of share capital of Gane (China), at a consideration of HK\$4.8 million. Gane (China) through the license from Gane Energy & Resources Pty Ltd (“Gane Australia”), a company registered under Corporation Laws of Victoria, Australia, will have the right to use and enjoy certain intellectual property rights owned by Gane Australia, in Hong Kong, Macau, Taiwan and the PRC.