

EXPLORE

interim report **2016-17**

OPPORTUNITIES

**“Mainland China will continue
to be our major market.....”**

**one of the fastest growing economies in the world
and support the Group’s optimistic business outlook
in the medium to long run**

- **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.



Les fleurs Diamond and Pearl Collection

Corporate Information

DIRECTORS

Executive Directors

Mrs. Wong Chew Li Chin^{b, c}, *Chairman*

Ms. Wong Wing Yan, Ella^d

Non-executive Directors

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

Mr. Cheung Pak To, Patrick^d, BBS

Independent Non-executive Directors

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

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

Mr. Fan Chun Wah, Andrew^a, J.P.

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
Hang Seng Bank
DBS Bank
Bank of Communication

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay 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 (1) 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**”), (2) entertainment business, including film investment, management and production of concerts and concert investments, entertainment events, television programmes and content production, and (3) investment holdings.

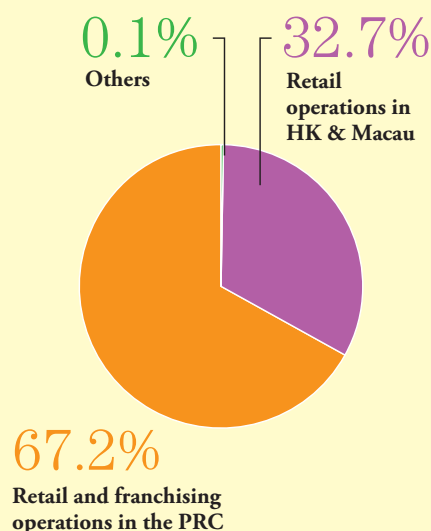
Economic growth in Mainland China continued to impose negative impact on the sentiment of tourists travelling to Hong Kong and Macau and the general consumptions in the Mainland China. All this has impact on the performance of the Group during the Period. The Group recorded a turnover of approximately HK\$518 million for the Period, representing a decrease of 19% as compared to the turnover of approximately HK\$639 million Last Period. The loss for the Period was approximately HK\$66 million, an increase of 72%, compared to the loss of approximately HK\$38 million Last Period and it is mainly contributed by the retail operation. The loss attributable to equity holders of the Company was approximately HK\$45 million for the Period compared to the loss of approximately HK\$7 million Last Period, representing an increase of 507%. The increase in loss was mainly attributable to (i) the fair value gain of derivatives embedded in convertible bonds and share option of HK\$29 million in Last Period compared to that of HK\$3 million during the Period and (ii) impairment loss on investment in a film recognised of HK\$10 million for the Period (Last Period: nil).

FINANCIAL REVIEW

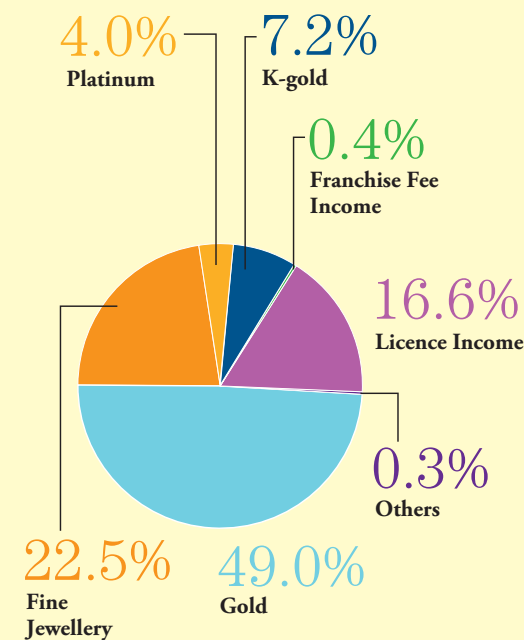
Sales from retailing and franchising of gold and jewellery products in Mainland China have continued to be the major source of income, accounting for 67% of turnover. The turnover of the Group for the Period amounted to HK\$518 million (Last Period: HK\$639 million), a decrease of 19% from Last Period. Mainland China recorded turnover of HK\$349 million, also a decrease of 13% from Last Period. Hong Kong and Macau recorded a turnover of HK\$169 million, a decrease of 28% from Last Period. We have recorded a decline in overall same-store-growth of 15% (Last Period: decline of 17%), of which same store growth in Mainland China dropped by 12% (Last Period: decline of 21%) and same store growth in Hong Kong and Macau declined by 25% (Last Period: a decline of 4%).

During the Period, the turnover derived from the franchise operation was HK\$32 million (Last Period: HK\$40 million), which is a result of the sales of goods to franchisees of HK\$1 million (Last Period: HK\$4 million) and receipt of license fees of HK\$31 million (Last Period: HK\$36 million). The license fees received are directly reflected in the gross profit. 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

300

shops in China

349 shops in Mainland China
7 shops in Hong Kong
2 shops in Macau

21	Anhui	2	Hainan	34	Jiangsu	5	Shanxi
22	Beijing	16	Hebei	1	Jiangxi	3	Sichuan
7	Chongqing	7	Heilongjiang	2	Jilin	11	Tianjin
7	Fujian	9	Henan	10	Liaoning	2	Xinjiang
5	Gansu	7	Hong Kong	2	Macau	1	Yunnan
62	Guangdong	26	Hubei	7	Ningxia	4	Zhejiang
16	Guangxi	3	Hunan	9	Shaanxi		
1	Guizhou	5	Inner Mongolia	51	Shandong		

Management Discussion and Analysis

The turnover has decreased by 19% while the gross profit has increased by 14%, respectively, for the Period to HK\$518 million and HK\$189 million, respectively. Despite the decrease in turnover, the initiatives implemented have resulted in a positive impact on the Group, whereby the gross profit margin has increased from 26% to 36% for the Period. Sales of our principal products, gold products and gem-set jewellery, comprised 60% (Last Period: 64%) and 24% (Last Period: 19%), respectively of total turnover, which resulted in the increase in the overall gross profit margin, as the gross profit derived from the sales of gold products is less than that of gem-set jewellery.

The Group's selling and distribution expenses have decreased to HK\$153 million (Last Period: HK\$163 million). Advertising and promotional expenses amounted to HK\$14 million (Last Period: HK\$14 million), representing a rate of 2.7% (Last Period: 2.1%) of the total revenue. Rental expenses amounted to HK\$64 million (Last Period: HK\$75 million), representing 12% (Last Period: 12%) of total revenue. The percentage of rental expenses to turnover remained at a relatively low level. It is the Group's intention to discuss with the various landlords on the level of rentals in spite of the current economic environment.

The Group's general and administrative expenses have increased to HK\$56 million (Last Period: HK\$49 million). The Group will continue to implement cost control procedures to reduce the general and administrative expenses.

The priority of the management for the Period continues to focus on improving operational performance. Given the general downturn in the economy, the loss was approximately HK\$66 million for the Period compared to the loss of approximately HK\$38 million Last Period. The increase in loss was mainly attributable to (i) the fair value gain of derivatives embedded in convertible bonds and share option of HK\$29 million in Last Period compared to that of HK\$3 million during the Period and (ii) impairment loss on investment in a film recognised of HK\$10 million for the Period (Last Period: nil).

INTERIM DIVIDEND

The Board has resolved not to recommend an interim dividend in respect of the six months ended 31 December 2016 to the holders of ordinary shares of the Company.

BUSINESS REVIEW

Retail Operation

Overall turnover has reached HK\$169 million (Last Period: HK\$236 million) from the Hong Kong and Macau retail operations and HK\$349 million (Last Period: HK\$402 million) from the Mainland China operations. The decrease in turnover for the Period was mainly due to the general downturn in the economy which has impacted on consumer sentiment, as compared to the Last Period.

As at 31 December 2016, the Group has 7 points-of-sale in Hong Kong, 2 points-of-sale in Macau and 349 points-of-sale in Mainland China under the brandname "3D-GOLD". Of the points-of-sale in Mainland China, 80 are self-operated points-of-sale and 269 are franchise points-of-sale. During the Period, 18 new shops and counters have opened in Mainland China and 24 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, mainly subject to fixed rentals, with some of the lease arrangements being committed to paying either minimum guaranteed amounts or monthly payments in the amounts equivalent to certain prescribed percentages of monthly sales as rental payments, whichever is the higher. Due to the current economic environment, the management is in the process of negotiation with landlords for more preferential rentals.

Our strategy in Mainland China is to continue to focus on the growth of franchise 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.

Management Discussion and Analysis

With a view to improve the profitability, the management has focused on the following areas through various measures: (i) adjusting 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 of products, (iv) persistent cost controls; 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 consistency 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.

Products and Design

The Group has continued to advance its product designs and innovations. Through continuous enhancement in product quality, the Group is committed to offer product series which are able to meet with our customers' preferences.

During the Period, the Group has enlarged its product portfolio to capture different market segments. Newly launched products include:

- “Starry Shimmer” Collection;
- “Precious Dear” Collection;
- “Peter Rabbit” K Gold & Diamond Collection;
- “Golden Allure” Collection;
- “Pure Gold Rooster” Collection;
- “K Love” Collection;
- “Love Lane” Collection; and
- “Wedding Collection”.

Marketing and Promotion

The Group strongly believes in the value of a strong brand. A strong jewellery brand means trust worthiness, quality and design; trust facilitates the buying decision. The Group continues to promote the “3D-GOLD” brand through a comprehensive marketing programme and to present a corporate image of superior quality.

During the Period, the Group's marketing programmes include organising a “2016 3D-GOLD Jewellery Brand Franchisee Business Seminar and Annual Dinner” in Shenzhen of PRC and participating in the 2016 China Wedding Expo in Guangzhou and Wuhan.

Awards and Achievements

The Group has also achieved a number of industry awards in recognition of its efforts in promoting service excellence, industry best practice and its contributions to the jewellery retail sector. The Highlights include the “QF Partnerships Commendation” awarded by Qualifications Framework; the “2016 Service Retailers of the Year — Silver Award” awarded by HKRMA; and the “Q-Mark Service Elite 2016” awarded by Hong Kong Q-Mark Council.

Management Discussion and Analysis

Entertainment Business

Leveraging its resources and capabilities, the Group has continued to participate in entertainment events, television programs and content production, while the management has extended the entertainment business by increasing its participation in investment and promotion of movies and entertainment events. Up to the date of this report, the Group has invested in the following entertainment events:

- 盧國沾歌詞背後演唱會;
- Paula Tsui in Concert 2016;
- “#TWINS #LOL# WORLD TOUR #SHENZHEN” Concert;
- Vote for Sam Hui 2016;
- Tsai Chin In Concert 2016;
- Jacky Cheung “A Classic Tour” in Hong Kong;
- 2016-2017 Park BoGum Asia Tour Fan Meeting in Hong Kong;
- The Invincible Jay Chou Concert Tour 2017 in Hong Kong; and
- Ronald Cheng PLAY IT AGAIN World Tour in Hong Kong.

E-Commerce

To further broaden the sales channels, the Group has launched an e-commerce platform “Zun1” (www.zun1.com) and a social network platform (www.54qn.cn) to capture the high ground in the rapidly-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 returns and achieve synergies in future years.

Clean Energy

The Group continues to invest in the research, development and commercialisation 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 Group expects that the new fuel will be generally well received in the PRC market due to its environmental friendly features. It is expected that the Group can help initiate the new fuel in the PRC market through its strong business network in PRC, which will help develop the business.

As at the date of this report, the Group has direct interest of 24% in the clean energy investments.

Management Discussion and Analysis

OUTLOOK

Given the uncertainty in the global economy, economic slowdown and decline in the consumption of luxury goods in Mainland China, the Group remains prudent about our business growth in the coming year. Looking ahead, we are positive about the business outlook in the medium to long run, despite short term market volatility. Mainland China will continue to be our major market. The economic growth in Mainland China remains one of the fastest growing economies in the world and supports the Group's optimistic business outlook in the medium-to-long run.

The strategic direction taken by the management 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.

The Group is exploring new business opportunities to generate additional revenue from the entertainment business and increase its participation in entertainment events. In addition, the Group will also continue its investments in the clean energy business.

Ultimately, we look forward to achieving our goal, which will result in growth and value to our investors and other stakeholders.

OTHERS

Liquidity, Financial Resources and Capital Structure

The Group centralises funding for all its operations through the corporate treasury based in Hong Kong. As at 31 December 2016, the Group had total cash and cash equivalents amounting to HK\$596 million (30 June 2016: HK\$442 million) whilst total net assets were HK\$316 million (30 June 2016: HK\$405 million). The Group's net gearing ratio as at 31 December 2016 was 211% (30 June 2016: 145%), being a ratio of total borrowing of HK\$1,264 million (30 June 2016: HK\$1,030 million) less pledged bank deposits and bank balances and cash of HK\$596 million (30 June 2016: HK\$442 million) to total equity of HK\$316 million (30 June 2016: HK\$405 million). After taking into account the gold inventories of HK\$325 million (30 June 2016: HK\$323 million), the Group's adjusted net gearing ratio as at 31 December 2016 was 109% (30 June 2016: 65%), being a ratio of total borrowing less pledged bank deposits, bank balances and cash and gold inventories to total equity. As at 31 December 2016, the Group has available unutilised revolving banking facilities of HK\$285 million (30 June 2016: HK\$138 million).

Capital Commitments

Capital commitments of the Group as at 31 December 2016 are set out in note 21 to the condensed consolidated financial statements.

Pledge of Assets

Pledge of assets of the Group as at 31 December 2016 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 16 and 18, the Group did not have any outstanding material foreign exchange contracts, interest or currency swaps, or other financial derivatives as at 31 December 2016.

Employees and Remuneration Policy

As at 31 December 2016, the Group had 1,472 employees (30 June 2016: 1,495). 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 2016, 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 of the Company

Name of director	Number of ordinary share			Total	% of issued ordinary shares
	Personal interests	Family interests	Corporate interests		
Mrs. Wong Chew Li Chin	336,000	980,222,476 (Note a)	—	980,558,476	27.84%
Ms. Wong Wing Yan, Ella	88,000	200,500 (Note b)	—	288,500	0.01%
Mr. Lam Kwok Hing, Wilfred	8,880,000	560,000 (Note c)	—	9,440,000	0.27%
Mr. Cheung Pak To, Patrick	—	—	—	—	—
Mr. Fan, Anthony Ren Da	—	—	—	—	—
Mr. Wong Kam Wing	5,371	—	—	5,371	0.00%
Mr. Fan Chun Wah, Andrew	400,000	100,000 (Note d)	—	500,000	0.01%

Notes:

- (a) Dr. Wong Kennedy Ying Ho ("Dr. Wong"), the spouse of Mrs. Wong Chew Li Chin ("Mrs. Wong"), is interested in the 980,222,476 shares. Please refer to the "SUBSTANTIAL SHAREHOLDERS" section below for details of the interests in shares of Dr. Wong in the Company.
- (b) The shares are held by the spouse of Ms. Wong Wing Yan, Ella.
- (c) The shares are held by the spouse of Mr. Lam Kwok Hing, Wilfred.
- (d) The shares are held by the spouse of Mr. Fan Chun Wah, Andrew.

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
Mrs. Wong Chew Li Chin	Beneficial owner (Note a)	24,000	0.00%
	Family interests (Note b)	36,603,884	1.04%
Ms. Wong Wing Yan, Ella	Beneficial owner (Note c)	11,816,901	0.34%
Mr. Lam Kwok Hing, Wilfred	Beneficial owner (Note c)	10,398,591	0.30%
	Family interests (Note d)	40,000	0.00%
Mr. Cheung Pak To, Patrick	Beneficial owner (Note c)	6,581,690	0.19%
Mr. Fan, Anthony Ren Da	Beneficial owner (Note c)	2,441,942	0.07%
Mr. Wong Kam Wing	Beneficial owner (Note c)	1,916,338	0.05%
	Beneficial owner (Note e)	383	0.00%

Notes:

- (a) These derivatives represent the 24,000 bonus warrant shares underlying the bonus warrants held by Mrs. Wong.
- (b) Dr. Wong, the spouse of Mrs. Wong, is interested in these derivatives. Please refer to the "SUBSTANTIAL SHAREHOLDERS" section below for details.
- (c) All interests above are in the form of share options of the Company.
- (d) These derivatives represent the 40,000 bonus warrant shares underlying the bonus warrants held by the spouse of Mr. Lam Kwok Hing, Wilfred.
- (e) 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 2016.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2016, 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
Dr. Wong Kennedy Ying Ho	Beneficial owner (Note a)	139,728,122	3.97%
	Family interest (Note a)	336,000	0.01%
	Corporate interest (Note a)	840,494,354	23.86%
Perfect Ace Investments Limited	Beneficial owner (Note a)	757,703,752	21.51%
Limin Corporation	Beneficial owner (Note a)	82,790,602	2.35%
Dr. Liu Wangzhi	Corporate interest (Note b)	186,874,847	5.31%
	Beneficial owner	15,556,000	0.44%
Mr. Wong Wai Sheung	Beneficial owner	5,831,430	0.17%
	Corporate interest (Note c)	76,899,993	2.18%
Mr. Chan Wai	Beneficial owner	1,000,000	0.03%
	Family interest	100,000	0.00%
	Corporate interest (Note c)	76,899,993	2.18%
Mr. Tse Moon Chuen	Beneficial owner	200,000	0.01%
	Corporate interest (Note c)	76,899,993	2.18%
Mr. Wong Koon Cheung	Corporate interest (Note c)	76,899,993	2.18%
Mr. Lee Shu Kuan	Corporate interest (Note c)	76,899,993	2.18%
Kwai Kee Cheung Jewellery & Goldsmith Company Limited	Corporate interest (Note c)	76,899,993	2.18%
Luk Fook (Control) Limited	Corporate interest (Note c)	76,899,993	2.18%
Luk Fook Holdings (International) Limited	Corporate interest (Note c)	76,899,993	2.18%

Notes:

- (a) Perfect Ace Investments Limited ("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. Accordingly, Dr. Wong is deemed to be interested in the shares through his controlling interest in Perfect Ace and Limin Corporation. Dr. Wong is personally interested in 139,728,122 shares. Mrs. Wong, the chairman and an executive director of the Company, being the spouse of Dr. Wong, is personally interested in 336,000 shares. As such, Dr. Wong is deemed to be interested in all the shares held by Perfect Ace, Limin Corporation and Mrs. Wong. Please also refer to the interests in shares of Mrs. 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.

Other Information

- (c) The corporate interest represents the aggregate of the two lots of shares being 45,000,000 shares held by Luk Fook Holdings Company Limited and 31,899,993 shares held by Luk Fook 3D Management Company Limited. Luk Fook Holdings Company Limited and Luk Fook 3D Management Company Limited are 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 such shares.

(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
Dr. Wong Kennedy Ying Ho	Beneficial owner (Note a)	1,620,817	0.05%
	Family interest (Note b)	24,000	0.00%
	Corporate interest (Note c)	34,983,067	0.99%
Perfect Ace Investments Limited	Beneficial owner (Note c)	34,983,067	0.99%
Dr. Liu Wangzhi	Corporate interest (Note d)	7,500,000	0.21%
Mr. Wong Wai Sheung	Corporate interest (Note e)	317,111,111	9.00%
Mr. Chan Wai	Corporate interest (Note e)	317,111,111	9.00%
Mr. Tse Moon Chuen	Corporate interest (Note e)	317,111,111	9.00%
Mr. Wong Koon Cheung	Corporate interest (Note e)	317,111,111	9.00%
Mr. Lee Shu Kuan	Corporate interest (Note e)	317,111,111	9.00%
Kwai Kee Cheung Jewellery & Goldsmith Company Limited	Corporate interest (Note e)	317,111,111	9.00%
Luk Fook (Control) Limited	Corporate interest (Note e)	317,111,111	9.00%
Luk Fook Holdings (International) Limited	Corporate interest (Note e)	317,111,111	9.00%
Luk Fook 3D Management Company Limited	Beneficial owner (Note e)	317,111,111	9.00%

Notes:

- (a) These derivatives comprise the 457,437 bonus warrant shares underlying the bonus warrants and the interests in 1,163,380 shares in the form of share option held by Dr. Wong.
- (b) These derivatives represent the 24,000 bonus warrant shares underlying the bonus warrants held by Mrs. Wong.
- (c) These derivatives represent the 34,983,067 bonus warrant shares underlying the bonus warrants held by Perfect Ace. Dr. Wong is deemed to be interested in these derivatives through his controlling interest in Perfect Ace.
- (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) 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 2016.

Other Information

SHARE OPTIONS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

COMPLIANCE WITH THE CODE PROVISIONS ON CORPORATE GOVERNANCE CODE

The Company's code on corporate governance practices was adopted with reference to the code provisions in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 to the Listing Rules.

The Company has 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 the chairman of the Company 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 directors and independent non-executive directors. However, all non-executive directors 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.

CHANGE IN INFORMATION OF DIRECTORS

Change in the information of directors of the Company that is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the publication of the Company's 2016 Annual Report is set out below:

Mr. Cheung Pak To, Patrick was appointed as an independent non-executive director of Nation Agricultural Holdings Limited (Stock Code: 1236), a company listed on the Main Board of the Stock Exchange, on 1 January 2017.

Mr. Fan Chun Wah, Andrew resigned from his position as an independent non-executive director of LT Commercial Real Estate Limited (Stock Code: 112), a company listed on the Main Board of the Stock Exchange, on 1 January 2017.

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, Mr. Fan Chun Wah, Andrew, Mr. Fan, Anthony Ren Da and Mr. Wong Kam Wing.

By Order of the Board

Hong Kong Resources Holdings Company Limited

Mrs. Wong Chew Li Chin

Chairman

Hong Kong, 24 February 2017

Report On Review of Condensed Consolidated Financial Statements

Deloitte.

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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 44, which comprise the condensed consolidated statement of financial position as of 31 December 2016 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 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

24 February 2017

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 31 December 2016

	NOTES	Six months ended 31 December	
		2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Turnover	3(a)	518,117	638,547
Cost of sales		(329,606)	(473,250)
Gross profit		188,511	165,297
Other income		5,392	16,264
Selling expenses		(152,595)	(162,913)
General and administrative expenses		(55,905)	(48,879)
Other operating expenses		(10,924)	(13,936)
Loss from operations		(25,521)	(44,167)
Change in fair value of derivatives embedded in convertible bonds and share option		2,540	29,021
Finance costs	4	(21,538)	(21,349)
Impairment loss on investment in a film recognised	13	(10,000)	–
Impairment loss on investment in an associate recognised	12	(3,000)	–
Share of result of an associate		(965)	–
Loss before taxation	5	(58,484)	(36,495)
Taxation	6	(7,331)	(1,728)
Loss for the period		(65,815)	(38,223)
Other comprehensive (expense) income:			
Item that will not be reclassified to profit or loss:			
Exchange difference arising on translation		(29,649)	(54,593)
Item that may be reclassified subsequently to profit and loss:			
Fair value gain on available-for-sale investment		5,880	–
		(23,769)	(54,593)
Total comprehensive expense for the period		(89,584)	(92,816)
Loss for the period attributable to:			
Owners of the Company		(44,509)	(7,337)
Non-controlling interests		(21,306)	(30,886)
		(65,815)	(38,223)
Total comprehensive expense for the period attributable to:			
Owners of the Company		(59,380)	(42,811)
Non-controlling interests		(30,204)	(50,005)
		(89,584)	(92,816)
Loss per ordinary share	8		
Basic		(HK\$0.013)	(HK\$0.002)
Diluted		(HK\$0.013)	(HK\$0.008)

Condensed Consolidated Statement of Financial Position

As at 31 December 2016

	NOTES	31 December 2016 HK\$'000 (Unaudited)	30 June 2016 HK\$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	9	49,892	55,205
Deposits paid	10	7,299	8,225
Intangible assets	11	168,066	168,066
Interest in an associate	12	23,938	27,903
Investments	13	56,408	60,528
Deferred tax assets		13,430	18,289
		319,033	338,216
Current assets			
Investments	13	8,049	5,726
Inventories		778,676	790,579
Trade and other receivables and deposits paid	10	183,915	154,335
Amount due from an associate		66	50
Pledged bank deposits		467,386	347,749
Bank balances and cash		129,107	94,079
		1,567,199	1,392,518
Current liabilities			
Trade and other payables, accruals and deposits received	14	256,146	236,405
Bank and other borrowings	15	890,000	627,000
Gold loans	16	147,976	185,765
Loan from a non-controlling shareholder of a subsidiary	17	20,000	20,000
Tax liabilities		4,974	11,133
		1,319,096	1,080,303
Net current assets		248,103	312,215
Total assets less current liabilities		567,136	650,431

Condensed Consolidated Statement of Financial Position

As at 31 December 2016

	NOTES	31 December 2016 HK\$'000 (Unaudited)	30 June 2016 HK\$'000 (Audited)
Non-current liabilities			
Convertible bonds	18(a)	80,188	74,359
Derivative financial instruments	18(b)	3,396	5,936
Bank and other borrowings	15	23,000	23,000
Loans from non-controlling shareholders of subsidiaries	17	103,000	100,000
Deferred tax liabilities		42,016	42,016
		251,600	245,311
NET ASSETS		315,536	405,120
CAPITAL AND RESERVES			
Share capital	19	35,224	35,224
Reserves		215,356	277,824
Equity attributable to owners of the Company		250,580	313,048
Non-controlling interests		64,956	92,072
TOTAL EQUITY		315,536	405,120

Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 December 2016

	Attributable to owners of the Company											Non-controlling interests HK\$'000	Total HK\$'000
	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	Investment revaluation reserve HK\$'000	Exchange reserve HK\$'000	PRC statutory reserve HK\$'000 (Note (b))	Accumulated losses HK\$'000	Total HK\$'000		
At 1 July 2015 (audited)	31,905	681,516	55,327	(256,051)	17,591	21,819	–	51,625	26,966	(260,899)	369,799	167,929	537,728
Loss for the period	–	–	–	–	–	–	–	–	–	(7,337)	(7,337)	(30,886)	(38,223)
Other comprehensive expense for the period	–	–	–	–	–	–	–	(35,474)	–	–	(35,474)	(19,119)	(54,593)
Total comprehensive expense for the period	–	–	–	–	–	–	–	(35,474)	–	(7,337)	(42,811)	(50,005)	(92,816)
Transfer between reserves	–	–	–	–	–	–	–	–	2,097	(2,097)	–	–	–
Issue of shares, net of transaction costs	3,319	36,227	–	–	–	–	–	–	–	–	39,546	–	39,546
At 31 December 2015 (unaudited)	35,224	717,743	55,327	(256,051)	17,591	21,819	–	16,151	29,063	(270,333)	366,534	117,924	484,458
At 1 July 2016 (audited)	35,224	717,743	55,327	(256,051)	17,200	21,819	2,520	15,458	28,929	(325,121)	313,048	92,072	405,120
Loss for the period	–	–	–	–	–	–	–	–	–	(44,509)	(44,509)	(21,306)	(65,815)
Exchange difference arising on translation	–	–	–	–	–	–	–	(20,751)	–	–	(20,751)	(8,898)	(29,649)
Fair value gain on available-for-sale investment	–	–	–	–	–	–	5,880	–	–	–	5,880	–	5,880
Total comprehensive income (expense) for the period	–	–	–	–	–	–	5,880	(20,751)	–	(44,509)	(59,380)	(30,204)	(89,584)
Transfer between reserves	–	–	–	–	–	–	–	–	814	(814)	–	–	–
Acquisition of additional interest in a subsidiary (Note (a)(iv))	–	–	–	(1,656)	–	–	–	–	–	–	(1,656)	1,656	–
Disposal of partial interests in subsidiaries (Note (a)(v) & (vi))	–	–	–	(1,432)	–	–	–	–	–	–	(1,432)	1,432	–
At 31 December 2016 (unaudited)	35,224	717,743	55,327	(259,139)	17,200	21,819	8,400	(5,293)	29,743	(370,444)	250,580	64,956	315,536

Notes:

(a) Other reserve comprises:

- a debit amount 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 ("CGS"), a subsidiary of the Company, being acquired from the non-controlling shareholders on 14 May 2010;
- a debit amount of HK\$3,643,000 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;
- a debit amount of HK\$38,803,000 represents the difference between (i) the aggregate of the fair value of the consideration (net of transaction cost) received for disposal of partial interest in CGS on 6 June 2014 and proceeds received from issuance of CB 2019 (as defined in note 18(a)), and (ii) the aggregate amount of the carrying amount of the net assets attributable to the disposed interest in CGS to the purchaser, the fair value of the CGS Share Option (as defined in note 18(b)) issued and the fair values of the liability component and the embedded derivatives of convertible bonds due 2019 issued to the purchaser, on 6 June 2014;
- a debit amount of HK\$1,656,000 represents the difference between the fair value of the consideration paid and the carrying amount of the net liabilities attributable to the additional interest of 20% in a subsidiary of the Company, being acquired from the non-controlling shareholders in December 2016;
- a credit amount of HK\$211,000 represents the difference between the fair value of the consideration received from issuing 1 new share by a subsidiary of the Company and the carrying amount of the net liabilities attributable to the diluted interest of 11% in December 2016; and
- a debit amount of HK\$1,643,000 represents the carrying amount of the net assets attributable to the interest of 35% in a subsidiary of the Company, being disposed to an independent third party at nil consideration in December 2016.

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

Condensed Consolidated Statement of Cash Flows

For the six months ended 31 December 2016

	Six months ended 31 December	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash used in operating activities	(57,875)	(41,264)
Investing activities		
Interest received	3,213	5,458
Purchase of property, plant and equipment	(6,431)	(20,218)
Proceeds from disposal of property, plant and equipment	345	597
Additions to intangible assets	—	(145)
Investment in a film	—	(3,866)
Acquisition of long term investments	—	(1,489)
Repayments of loans from related parties	—	1,424
Repayment of loan receivable	3,900	—
Advance to an associate	(16)	—
Placement of pledged bank deposits	(180,822)	—
Withdrawal of pledged bank deposits	44,377	72,131
Net cash (used in) from investing activities	(135,434)	53,892
Financing activities		
Interest paid	(17,541)	(18,451)
Loan from a non-controlling shareholder of a subsidiary	3,000	—
New bank and other borrowings	353,000	244,154
Repayment of bank and other borrowings	(90,000)	(256,178)
Repayment of gold loans	(18,410)	(88,438)
Repayment of obligation under finance leases	—	(106)
Proceeds from the issue of new shares	—	40,824
Transaction costs for the issue of new shares	—	(1,278)
Net cash from (used in) financing activities	230,049	(79,473)
Net increase (decrease) in cash and cash equivalents	36,740	(66,845)
Cash and cash equivalents at beginning of the period	94,079	261,961
Effect of foreign exchange rate changes	(1,712)	(11,473)
Cash and cash equivalents at end of the period, represented by bank balances and cash	129,107	183,643

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2016

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 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 method of computation used in the condensed consolidated financial statements for the six months ended 31 December 2016 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2016.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 - 2014 Cycle
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported 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 2016

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	
	2016	2015
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Sales of goods	485,663	598,091
Franchise income	847	3,555
Licence income	31,340	36,330
Television programmes and content production income	150	571
Income from performance events	117	–
	518,117	638,547

(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; and
- 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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2016

3. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

For the six months ended 31 December 2016 (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	348,579	169,103	517,682	435	518,117
RESULT					
Segment results	38,790	(13,617)	25,173	(11,436)	13,737
Other income					5,392
Unallocated staff related expenses					(15,759)
Other unallocated corporate expenses					(12,910)
Advertising, promotion and business development expenses					(15,981)
Change in fair value of derivatives embedded in convertible bonds and share option					2,540
Finance costs					(21,538)
Impairment loss on investment in a film recognised					(10,000)
Impairment loss on investment in an associate recognised					(3,000)
Share of result of an associate					(965)
Loss before taxation					(58,484)
Taxation					(7,331)
Loss for the period					(65,815)

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2016

3. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

For the six months ended 31 December 2015 (unaudited)

	Reportable segments				
	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	402,186	235,653	637,839	708	638,547
RESULT					
Segment results	16,905	(25,217)	(8,312)	(8,775)	(17,087)
Other income					16,264
Unallocated staff related expenses					(15,683)
Other unallocated corporate expenses					(10,919)
Advertising, promotion and business development expenses					(15,365)
Change in fair value of derivatives embedded in convertible bonds and share option					29,021
Impairment loss on intangible assets recognised					(1,377)
Finance costs					(21,349)
Loss before taxation					(36,495)
Taxation					(1,728)
Loss for the period					(38,223)

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, change in fair value of derivatives embedded in convertible bonds and share option, impairment loss on investment in a film recognised, impairment loss on investment in an associate recognised, impairment loss on intangible assets recognised, finance costs, share of result of an associate, 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, entertainment business including film investments, management and production of concerts and concerts investments, entertainment events and television programmes and content production.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2016

4. FINANCE COSTS

	Six months ended 31 December	
	2016	2015
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Interests on:		
Bank and other borrowings	10,599	8,933
Gold loans	3,067	5,638
Obligations under finance leases	–	3
Loan from a non-controlling shareholder of a subsidiary	202	208
Effective interest on convertible bonds (note 18(a))	7,660	6,567
Other finance costs	10	–
	21,538	21,349

5. LOSS BEFORE TAXATION

	Six months ended 31 December	
	2016	2015
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Loss before taxation has been arrived at after charging (crediting):		
Advertising, promotion and business development expenses	15,981	15,365
Amortisation of intangible assets	–	135
Change in fair value of gold loans	(8,700)	(11,581)
Change in fair value of financial liabilities at fair value through profit or loss	–	18,065
Cost of inventories recognised as an expense	332,473	459,288
Depreciation of property, plant and equipment	9,493	9,860
Exchange loss (gain), net	4,308	(6,822)
Loss on disposal of property, plant and equipment	376	6,029
Impairment loss on intangible assets recognised (included in "other operating expenses")	–	1,377
Interest income	(3,213)	(5,458)
Operating lease rentals		
– contingent rental	34,227	39,908
– minimum lease payments	32,657	38,192

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2016

6. TAXATION

	Six months ended 31 December	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Current tax:		
PRC Enterprise Income Tax	2,472	1,006
Overprovision in prior year:		
Hong Kong Profits Tax	—	(18)
	2,472	988
Deferred taxation	4,859	740
	7,331	1,728

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profits for both periods. No provision for taxation in Hong Kong has been made in both period as the Group incurred tax losses in Hong Kong.

Pursuant to the Enterprise Income Tax Law and Implementation Rules of the PRC, subsidiaries of the Company established in the PRC are subject to an income tax rate of 25% for both periods. Certain subsidiaries established in Chongqing, a municipality in Western China, were engaged in a specific state-encouraged industry as defined under the new "Catalogue of Encouraged Industries in the Western Region" (effective from 1 October 2015) pursuant to 《財政部、海關總署、國家稅務總局關於深入實施西部大開發戰略有關稅收政策問題的通知》 (Caishui [2011] No. 58) issued in 2011 and were subject to a preferential tax rate of 15% when the annual revenue from the encouraged business exceeded 70% of the total revenue in a fiscal year for these relevant subsidiaries.

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 2016 and 31 December 2015 to the holders of ordinary shares of the Company.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2016

8. LOSS PER ORDINARY SHARE

	Six months ended 31 December	
	2016	2015
	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	(44,509)	(7,337)
Effect of dilutive potential ordinary share:		
– Interest on CB 2019 (as defined in note 18(a))	–	3,117
– Change in fair value in derivatives embedded in CB 2019	–	(24,577)
Loss for the period attributable to owners of the Company for the purpose of diluted loss per ordinary share	(44,509)	(28,797)
	'000	'000
	(Unaudited)	(Unaudited)
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic loss per ordinary share	3,522,395	3,273,994
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 (Note)	3,522,395	3,591,105

Note:

The computation of diluted loss per ordinary share did not assume the exercise of share options and bonus warrants because their exercise price is higher than the average share price, and the conversion of CB 2019 and CGS CB 2018 (as defined in note 18(a)) (six months ended 31 December 2015: CGS CB 2018) since their conversion would result in a decrease in loss per ordinary share.

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of HK\$6,431,000 (six months ended 31 December 2015: HK\$20,218,000).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2016

10. TRADE AND OTHER RECEIVABLES AND DEPOSITS PAID

	31 December 2016 HK\$'000 (Unaudited)	30 June 2016 HK\$'000 (Audited)
Deposits paid under non-current assets represent:		
Rental and utility deposits	7,299	8,225
Trade and other receivables and deposits paid under current assets comprise:		
Trade receivables	133,061	93,867
Less: allowance for doubtful debts	(14,715)	(14,877)
	118,346	78,990
Other receivables and deposits paid (Note)	65,569	75,345
	183,915	154,335

Note: Included in other receivables is a loan receivable of HK\$3,880,000 (30 June 2016: HK\$7,780,000) from an independent third party which is unsecured, interest-free and repayable within one year from the end of the reporting period.

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 is trade receivable from a fellow subsidiary of a non-controlling shareholder of a subsidiary of HK\$455,000 (30 June 2016: HK\$404,000).

Included in other receivables and deposits paid is consultancy fee receivable from an associate of HK\$2,750,000 (30 June 2016: HK\$1,350,000).

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 2016 HK\$'000 (Unaudited)	30 June 2016 HK\$'000 (Audited)
0 - 30 days	96,320	62,095
31 - 60 days	7,380	4,925
61 - 90 days	3,902	3,118
Over 90 days	10,744	8,852
	118,346	78,990

The allowance of doubtful debts of HK\$14,715,000 (30 June 2016: HK\$14,877,000) 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.

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For the six months ended 31 December 2016

11. INTANGIBLE ASSETS

	31 December 2016 HK\$'000 (Unaudited)	30 June 2016 HK\$'000 (Audited)
Trademarks	168,066	168,066

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 2016, management of the Group conducted impairment review on the trademarks. 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 2016: 17%). The cash flows beyond the five-year period are extrapolated using a 1% (30 June 2016: 1%) growth rate. The key assumptions for the value in use calculations are discount rate and growth rate. 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.

12. INTEREST IN AN ASSOCIATE

	31 December 2016 HK\$'000 (Unaudited)	30 June 2016 HK\$'000 (Audited)
Unlisted investment, at cost	27,903	27,903
Impairment recognised during the period	(3,000)	–
	24,903	27,903
Share of post-acquisition losses	(965)	–
	23,938	27,903

During the six months ended 31 December 2016, management of the Company conducted an impairment review on the investment in the associate and an impairment loss of HK\$3,000,000 was recognised with reference to its estimated recoverable amount.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2016

12. INTEREST IN AN ASSOCIATE *(Continued)*

As at 31 December 2016, the Group had interest in the following associate:

Name of entity	Place of incorporation	Class of shares held	Proportion of nominal value of issued capital held by the Group	Proportion of voting power held	Principal activity
Gane Energy & Resources (China) Limited	Hong Kong	Ordinary	24.0%	33.3%	Holding of license rights for business of new liquid fuel for use in Hong Kong, Macau, Taiwan and other parts of China

The principal place of operation of Gane Energy & Resources (China) Limited ("Gane China") is in Hong Kong. Pursuant to the Articles of Associations of Gane China, the Group has no contractual and unconditional right to appointing directors to the board. As at 31 December 2016 and 30 June 2016, the Group has one out of three directors in Gane China.

13. INVESTMENTS

	31 December 2016 HK\$'000 (Unaudited)	30 June 2016 HK\$'000 (Audited)
Non-current:		
Investment in a private entity (Note (a))	3,388	3,388
Investment in a listed company in Hong Kong (Note (b))	43,680	37,800
Investment in a film (Note (c))	9,340	19,340
	56,408	60,528
Current:		
Investments in entertainment events	8,049	5,726
	64,457	66,254

Notes:

- The amount represents equity investment in a private limited liability company incorporated in Australia that is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates was so significant that the directors of the Company are of the opinion that its fair value could not be measured reliably. The investee company is principally engaged in the research and development of a new liquid fuel.
- The listed investment is stated at its fair value, determined by reference to bid prices quoted in an active market. The management considered that the investment at the end of the reporting period is held for strategic purpose and is not to be disposed of in the foreseeable future.
- Based on the agreement entered into between a wholly owned subsidiary of the Company and an independent third party, the Group invested in a film with total investment amounting to RMB15,500,000 (equivalent to HK\$19,340,000) and is entitled to a return of certain percentage of the profit to be derived from the release of the film worldwide in any media and in any format. The film is released in the PRC and Hong Kong in August 2016.

During the six months ended 31 December 2016, management of the Company conducted an impairment review on the investment in the film and determined that such investment was impaired with reference to the present value of the estimated future cash flows from share of box office. Accordingly, impairment loss of HK\$10,000,000 has been recognised.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2016

14. TRADE AND OTHER PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

	31 December 2016 HK\$'000 (Unaudited)	30 June 2016 HK\$'000 (Audited)
Trade payables	113,037	90,935
Deposits received from customers (Note (a))	15,145	17,919
Franchisee guarantee deposits (Note (b))	45,636	54,292
Other payables, accruals and other deposits	82,328	73,259
	256,146	236,405

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 are trade payables to certain fellow subsidiaries of a non-controlling shareholder of a subsidiary amounting to HK\$52,045,000 (30 June 2016: HK\$54,073,000).

Included in franchisee guarantee deposits and other payables, accruals and other deposits are deposits received from and other payables to certain fellow subsidiaries of a non-controlling shareholder of a subsidiary amounting to HK\$1,368,000 (30 June 2016: HK\$1,441,000) and HK\$4,244,000 (30 June 2016: HK\$942,000) respectively.

Included in other payables, accruals and other deposits are service fee payable to a company in which a director of a subsidiary has beneficial interest amounting to HK\$2,126,000 (30 June 2016: HK\$2,083,000).

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

	31 December 2016 HK\$'000 (Unaudited)	30 June 2016 HK\$'000 (Audited)
0 - 30 days	47,151	31,850
31 - 60 days	17,487	11,643
61 - 90 days	2,897	4,530
Over 90 days	45,502	42,912
	113,037	90,935

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15. BANK AND OTHER BORROWINGS

	31 December 2016 HK\$'000 (Unaudited)	30 June 2016 HK\$'000 (Audited)
Bank borrowings:		
Secured floating rate bank loans	890,000	627,000
Other borrowings:		
Unsecured fixed rate other borrowings		
– Independent third parties	23,000	23,000
	913,000	650,000
Secured	890,000	627,000
Unsecured	23,000	23,000
	913,000	650,000
Carrying amounts repayable:		
On demand or within one year*	715,000	477,000
More than five years*	23,000	23,000
	738,000	500,000
Carrying amount of bank loans that contain a repayment on demand clause (shown under current liabilities):		
Repayable within one year*	175,000	150,000
	913,000	650,000
Less: Amounts due within one year and shown under current liabilities	(890,000)	(627,000)
Amounts shown under non-current liabilities	23,000	23,000

* 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 fluctuations in gold prices on gold inventories, and were designated as financial liabilities at fair value through profit or loss.

As at 31 December 2016, the gold loan from a fellow subsidiary of a non-controlling shareholder of a subsidiary amounting to RMB84,448,000 (equivalent to HK\$94,704,000) (30 June 2016: RMB106,970,000 (equivalent to HK\$126,055,000)) is unsecured, interest bearing at a fixed rate of 4.5% per annum and repayable on demand. The remaining HK\$53,272,000 (30 June 2016: HK\$59,710,000) are gold loan from outsiders which are denominated in RMB (30 June 2016: RMB), interest bearing at a weighted average rate of 3.50% (30 June 2016: 3.50%) per annum with original maturity of twelve months, and secured by pledged bank deposits of HK\$5,607,000 (30 June 2016: HK\$5,892,000).

The gain arising from change in fair value of gold loans of HK\$8,700,000 (six months ended 31 December 2015: HK\$11,581,000) has been recognised in profit or loss for the six months ended 31 December 2016. 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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2016

17. LOANS FROM NON-CONTROLLING SHAREHOLDERS OF SUBSIDIARIES

The loans from non-controlling shareholders of subsidiaries are unsecured, interest-free and mutually agreed by the Group and the lenders not to be repaid within one year after the end of the reporting period, except for an amount of HK\$20,000,000 (30 June 2016: HK\$20,000,000) which is unsecured, interest bearing at 2% per annum and repayable on 5 March 2017.

18. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS

(a) Convertible bonds

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 HK\$'000
	CB 2019 HK\$'000	CGS CB 2018 HK\$'000	
At 1 July 2016	37,465	36,894	74,359
Coupon interest accrued at 1 July 2016 and included in other payables	857	985	1,842
Interest charged during the period	3,676	3,984	7,660
Payment of coupon interest	(1,713)	(1,950)	(3,663)
Coupon interest accrued at 31 December 2016 and included in other payables	—	(10)	(10)
At 31 December 2016	40,285	39,903	80,188

During the six months ended 31 December 2016 and 31 December 2015, the effective interest rates of CB 2019 and CGS CB 2018 were 19.47% and 18.02% per annum respectively.

(b) Derivative financial instruments

	31 December 2016 HK\$'000 (Unaudited)	30 June 2016 HK\$'000 (Audited)
Derivatives embedded in convertible bonds (i)	3,396	5,930
CGS Share Option (ii)	—	6
	3,396	5,936

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18. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

(b) Derivative financial instruments *(Continued)*

(i) Derivatives embedded in convertible bonds

The fair values of the derivatives embedded in CB 2019 and CGS CB 2018 at 30 June 2016 and 31 December 2016 are based on valuation carried out on those dates by an independent valuer. The change in fair value of HK\$2,534,000 (for the six months ended 31 December 2015: HK\$27,202,000) has been credited to profit or loss for the six months ended 31 December 2016.

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

	At 31 December 2016	At 30 June 2016
CB 2019		
Share price	HK\$0.10	HK\$0.10
Exercise price	HK\$0.18	HK\$0.18
Expected dividend yield	0.00%	0.00%
Volatility	35.69%	40.79%
CGS CB 2018		
Share price	US\$5,601.78	US\$7,110.82
Exercise price	US\$24,390.24	US\$24,390.24
Expected dividend yield	0.00%	1.91%
Volatility	34.26%	36.08%

Notes to the Condensed Consolidated Financial Statements

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18. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

(b) Derivative financial instruments *(Continued)*

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

The fair value of the CGS Share Option at 31 December 2016 is nil (30 June 2016: HK\$6,000). The change in fair value of HK\$6,000 (six months ended 31 December 2015: HK\$1,819,000) has been credited to profit or loss for the six months ended 31 December 2016.

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 31 December 2016	At 30 June 2016
Share price	US\$5,601.78	US\$7,110.82
Exercise price	US\$24,390.24	US\$24,390.24
Expected dividend yield	0.00%	1.91%
Volatility	34.26%	36.08%

19. SHARE CAPITAL

	Number of shares '000	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each		
At 1 July 2016 and 31 December 2016	6,000,000	60,000
Preference shares of HK\$0.01 each		
At 1 July 2016 and 31 December 2016	3,000,000	30,000
Total:		
At 1 July 2016 and 31 December 2016	9,000,000	90,000
Ordinary shares issued and fully paid:		
Ordinary shares of HK\$0.01 each		
At 1 July 2016 and 31 December 2016	3,522,394	35,224
Total:		
At 1 July 2016 and 31 December 2016	3,522,394	35,224

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 2016 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 1.7.2016 and 31.12.2016
Directors	23.1.2009	23.1.2009 to 22.1.2019	0.4280	525,604
	20.7.2009	20.7.2009 to 19.7.2019	1.2980	2,559,436
	26.7.2011	26.7.2011 to 25.7.2021	0.4810	2,326,760
	26.7.2011	26.7.2012 to 25.7.2021	0.4810	3,490,140
	26.7.2011	26.7.2013 to 25.7.2021	0.4810	4,653,522
	25.1.2013	28.2.2013 to 24.1.2023	0.2288	5,200,000
	25.1.2013	28.2.2014 to 24.1.2023	0.2288	7,200,000
	25.1.2013	28.2.2015 to 24.1.2023	0.2288	7,200,000
				<hr/> 33,155,462
Employees	20.7.2009	20.7.2009 to 19.7.2019	1.2980	1,163,380
	25.1.2013	28.2.2013 to 24.1.2023	0.2288	2,800,000
	25.1.2013	28.2.2014 to 24.1.2023	0.2288	2,800,000
	25.1.2013	28.2.2015 to 24.1.2023	0.2288	4,300,000
	27.2.2013	28.2.2014 to 24.1.2023	0.2288	10,000,000
	27.2.2013	28.2.2015 to 24.1.2023	0.2288	10,000,000
				<hr/> 31,063,380

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2016

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

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

Eligible person	Date of grant	Exercise period	Exercise price HK\$	Number of options Outstanding as at 1.7.2016 and 31.12.2016
Consultants	20.7.2009	20.7.2009 to 19.7.2019	1.2980	1,396,056
	13.4.2010	13.4.2009 to 12.4.2020	1.2030	2,326,761
	13.4.2010	13.7.2010 to 12.4.2020	1.2030	5,816,901
	13.4.2010	13.10.2010 to 12.4.2020	1.2030	5,816,901
	13.4.2010	13.1.2011 to 12.4.2020	1.2030	6,710,377
	25.1.2013	28.2.2013 to 24.1.2023	0.2288	800,000
	25.1.2013	28.2.2014 to 24.1.2023	0.2288	800,000
	25.1.2013	28.2.2015 to 24.1.2023	0.2288	800,000
				<hr/> 24,466,996
				<hr/> 88,685,838
Exercisable at the end of the period				<hr/> 88,685,838
Weighted average exercise price				<hr/> 0.5485

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2016

20. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

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

Eligible person	Date of grant	Exercise period	Exercise price HK\$	Number of options Outstanding as at 1.7.2015 and 31.12.2015
Directors	23.1.2009	23.1.2009 to 22.1.2019	0.4280	1,051,208
	20.7.2009	20.7.2009 to 19.7.2019	1.2980	3,839,154
	26.7.2011	26.7.2011 to 25.7.2021	0.4810	2,326,760
	26.7.2011	26.7.2012 to 25.7.2021	0.4810	3,490,140
	26.7.2011	26.7.2013 to 25.7.2021	0.4810	4,653,522
	25.1.2013	28.2.2013 to 24.1.2023	0.2288	5,800,000
	25.1.2013	28.2.2014 to 24.1.2023	0.2288	7,800,000
	25.1.2013	28.2.2015 to 24.1.2023	0.2288	7,800,000
				36,760,784
Employees	20.7.2009	20.7.2009 to 19.7.2019	1.2980	1,163,380
	25.1.2013	28.2.2013 to 24.1.2023	0.2288	2,800,000
	25.1.2013	28.2.2014 to 24.1.2023	0.2288	2,800,000
	25.1.2013	28.2.2015 to 24.1.2023	0.2288	4,300,000
	27.2.2013	28.2.2014 to 24.1.2023	0.2288	10,000,000
	27.2.2013	28.2.2015 to 24.1.2023	0.2288	10,000,000
				31,063,380
Consultants	20.7.2009	20.7.2009 to 19.7.2019	1.2980	232,676
	13.4.2010	13.4.2009 to 12.4.2020	1.2030	2,326,761
	13.4.2010	13.7.2010 to 12.4.2020	1.2030	5,816,901
	13.4.2010	13.10.2010 to 12.4.2020	1.2030	5,816,901
	13.4.2010	13.1.2011 to 12.4.2020	1.2030	6,710,377
	25.1.2013	28.2.2013 to 24.1.2023	0.2288	800,000
	25.1.2013	28.2.2014 to 24.1.2023	0.2288	800,000
	25.1.2013	28.2.2015 to 24.1.2023	0.2288	800,000
				23,303,616
				91,127,780
Exercisable at the end of the period				91,127,780
Weighted average exercise price				0.5425

(b) 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.

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21. CAPITAL COMMITMENTS

	31 December 2016 HK\$'000 (Unaudited)	30 June 2016 HK\$'000 (Audited)
Capital expenditure in respect of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	2,892	815

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 2016 HK\$'000 (Unaudited)	30 June 2016 HK\$'000 (Audited)
Within one year	38,571	57,144
In the second to fifth year inclusive	12,548	24,278
	51,119	81,422

Leases are negotiated for lease terms of one to five years (30 June 2016: one to five 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 2016, the Group's bank deposits with carrying amounts of HK\$467,386,000 (30 June 2016: HK\$347,749,000) were pledged to banks as securities to obtain the banking facilities granted to subsidiaries of 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	
		2016	2015
		HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
An associate	Consultancy fee income	1,402	–
A substantial shareholder of the Company	Consultancy fee	750	–
A non-controlling shareholder of a subsidiary	Interest expense	202	208
Fellow subsidiaries of a non-controlling shareholder of a subsidiary	Renovation fee	2,010	–
	Interest on gold loans	2,137	–
	License income	1,333	–
	Purchase of gold and jewellery products	16,217	34,065
	Rental expense	305	26
	Sales of jewellery	1,200	–
	Specialty fee	125	209
	Subcontracting fee	5,637	–
A company in which a director of a subsidiary has beneficial interest	License and service fee	2,099	–
An investee company with a common director of the Company	Consultancy fee income	–	1,347

As at 31 December 2016, the ultimate holding company of a non-controlling shareholder of a subsidiary issued financial guarantee amounting to HK\$765,456,000 (30 June 2016: HK\$628,853,000) to banks in respect of banking facilities granted to the Group. No fee is paid or payable by the Group to the guarantor.

(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, 14, 16 and 17.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2016

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	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Fees	990	990
Salaries	5,122	5,164
Retirement benefit costs	36	36
	6,148	6,190

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).

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25. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS *(Continued)*

Financial assets/liabilities included in the condensed consolidated statement of financial position		Fair value as at		Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs
		31 December	30 June			
		2016	2016			
		HK\$'000	HK\$'000			
1)	Available-for-sale financial assets – Listed shares	43,680	37,800	Level 1	Bid prices quoted in active market.	Not applicable
2)	Gold loans	(147,976)	(185,765)	Level 2	Quoted bid prices of gold	Not applicable
3)	Conversion option derivatives embedded in convertible bonds	(3,396)	(5,930)	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.	Volatility of the share price determined by reference to the historical share price of the Company and CGS, and discount rate (Note)
4)	CGS Share Option	–	(6)	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.	Volatility of the share price determined by reference to the historical share price of CGS, and discount rate (Note)

Note: The higher the volatility of the share price of the Company and CGS, the higher the fair value of the conversion option derivative and share option. The higher the discount rate, the lower the fair value of the conversion option derivative and share option. For the volatility of the share price of the Company and CGS, and discount rate used in the fair value measurement, please refer to note 18(b).

There were no transfer between level 1 and 2 during both periods presented.

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25. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS *(Continued)*

Reconciliation of Level 3 fair value measurements

	CGS Share Option HK\$'000	Conversion option derivatives HK\$'000
At 1 July 2015	1,840	40,820
Fair value gain recognised in profit or loss	(1,834)	(34,890)
At 30 June 2016	6	5,930
Fair value gain recognised in profit or loss	(6)	(2,534)
At 31 December 2016	—	3,396

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The directors of the Company consider that the carrying amounts of financial assets and liabilities recorded as amortised cost in the condensed consolidated financial statements approximate to their fair values.

The fair value of such financial assets and financial liabilities are determined in accordance with general accepted pricing models based on discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.