

EXPLORE

interim report **2017-18**

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.



Starry Shimmer Collection

Corporate Information

DIRECTORS

Executive Directors

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

Mr. Wu Xiaolin^c

Mr. Xu Zhigang, Chief executive officer (*appointed on 14 February 2018*)

Mr. Zhao Jianguo

Ms. Dai Wei

Independent Non-executive Directors

Dr. Loke Yu alias Loke Hoi Lam^{a,b,c}

Mr. Xu Xiaoping^{a,b,c}

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

^a *Member of the Audit Committee*

^b *Member of the Remuneration Committee*

^c *Member of the Nomination Committee*

COMPANY SECRETARY

Mr. Fu Yat Ming

AUDITORS

Deloitte Touche Tohmatsu

Certified Public Accountants

REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton, HM11

Bermuda

PRINCIPAL OFFICE IN HONG KONG

Room 905, 9th Floor, Star House

3 Salisbury Road, Tsim Sha Tsui

Kowloon

Hong Kong

Corporate Information

PRINCIPAL BANKERS

Hang Seng Bank

DBS Bank

Shanghai Commercial Bank

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 trademark licensing and retailing for selling gold and jewellery products in Hong Kong, Macau and other regions (“**Mainland China**”) in the People’s Republic of China (the “**PRC**”).

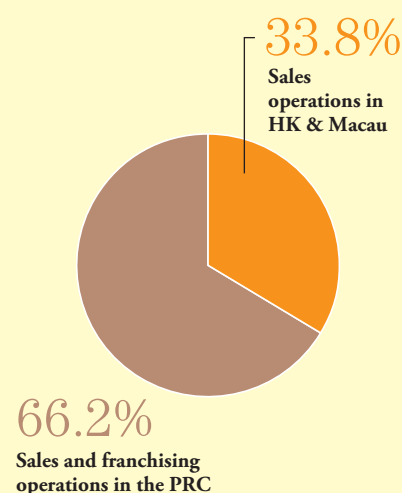
The anti-corruption drive and the tight money situation on the Mainland as well as the political disputes in Hong Kong have all taken their toll on consumer sentiment. High-priced gift and luxury items became slower to move. However, there has been a turnaround of tourist visitations from Mainland China and retail sales value in 2017. According to the Hong Kong Tourism Board, during the first eleven months of 2017, visitor arrivals from Mainland China have increased 4% over the same period last year. The retail value index for jewellery, watches & clocks, and valuable gifts as surveyed by the government has risen 5% for 2017. All this has impact on the performance of the Group during the Period. The Group recorded a turnover of approximately HK\$623 million for the Period, representing an increase of 20% as compared to the turnover of approximately HK\$518 million same period last year (“**Last Period**”). The loss for the period was approximately HK\$27 million compared to the loss of approximately HK\$66 million Last Period, representing a decrease of 59% and it is mainly attributable to (i) increase in turnover as a result of increment of 2 shops in Hong Kong and 17 shops and counters in Mainland China and an increase in overall same-store growth in Hong Kong and Macau as well as in Mainland China; (ii) decrease of selling expenses, general and administrative expenses and other expenses; (iii) absence of recognition of impairment loss on investment in a film for the six months ended 31 December 2017.

FINANCIAL REVIEW

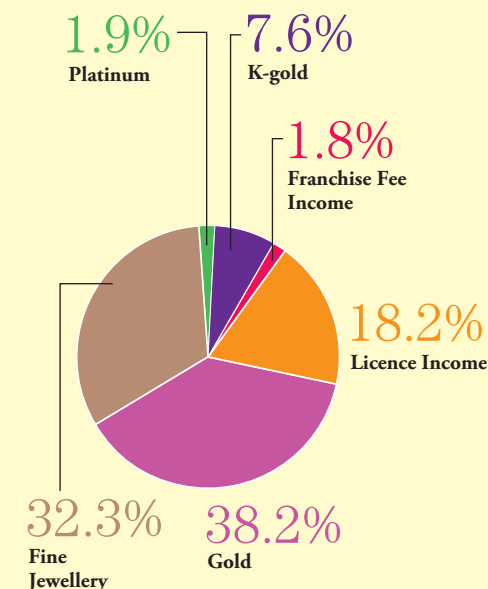
Turnover from selling and franchising of gold and jewellery products in Mainland China have continued to be the major source of income, which accounted for 66% of turnover. The turnover of the Group for the Period amounted to HK\$623 million (2016: HK\$518 million), an increase of 20% from Last Period. In Mainland China, the Group recorded a turnover of HK\$413 million, an increase of 18% from Last Period. The increase of turnover in Mainland China is attributable to opening of 49 new shops and counters and closing of 32 loss-making shops and counters in Mainland China. As a result of the opening of two new stores in Hong Kong, the Group recorded a turnover of HK\$211 million, an increase of 25% from Last Period. The Group has recorded an increase in overall same-store growth of 18% (2016: decline of 15%), of which same-store-growth in Mainland China rose by 17% (2016: decline of 12%) and same-store-growth in Hong Kong and Macau rose by 8% (2016: decline of 25%).

The turnover has increased by 20% and the gross profit has increased by 4%, for the Period to HK\$623 million and HK\$196 million, respectively. Sales of the Group’s principal products, gold products and gem-set jewellery accounted for 56% (2016: 59%) and 31% (2016: 25%), respectively of total turnover.

Turnover Breakdown by Business



Gross Profit Analysis by Products





over
300
shops in China

362 shops in Mainland China
9 shops in Hong Kong
2 shops in Macau

Province	Count	Province	Count	Province	Count	Province	Count
Anhui	23	Hebei	15	Jiangxi	1	Shanxi	7
Beijing	23	Heilongjiang	8	Jilin	3	Sichuan	3
Chongqing	6	Henan	11	Liaoning	11	Tianjin	13
Fujian	10	Hong Kong	9	Macau	2	Xinjiang	4
Gansu	4	Hubei	29	Ningxia	5	Zhejiang	4
Guangdong	72	Hunan	3	Shaanxi	9		
Guangxi	16	Inner Mongolia	5	Shandong	46		
Hainan	2	Jiangsu	28	Shanghai	1		

Management Discussion and Analysis

The Group's selling and distribution expenses have decreased to HK\$147 million (2016: HK\$153 million), whereas the percentage of total turnover has dropped to 24% (2016: 30%) this Period. Advertising and promotional expenses amounted to HK\$10 million (2016: HK\$14 million), equivalent to 1.6% (2016: 2.7%) of the total revenue. Rental expenses amounted to HK\$60 million (2016: HK\$64 million), representing 10% (2016: 12%) of total revenue. The rental reduction was generally in line with the market trend, yet the percentage to turnover remained at a relatively low level.

The Group's general and administrative expenses have decreased by HK\$5 million to HK\$51 million (2016: HK\$56 million). The Group has implemented cost control measures so as to reduce the general and administrative expenses.

The Group's other expenses and other gains and losses have decreased by HK\$9 million from HK\$11 million to HK\$2 million. It is mainly attributable to inclusion of exchange loss of HK\$4 million Last Period and it has turned to exchange gain of HK\$3 million this Period.

INTERIM DIVIDEND

The Board has resolved not to recommend an interim dividend in respect of the six months ended 31 December 2017 to the holders of ordinary shares of the Company.

BUSINESS REVIEW

Turnover from the Hong Kong and Macau retail operations has reached HK\$210 million (2016: HK\$169 million) and HK\$413 million (2016: HK\$349 million) from the Mainland China operations. The increase in turnover for the Period was mainly due to the increase of 2 shops in Hong Kong and 17 shops and counters in Mainland China.

As at 31 December 2017, the Group has nine points-of-sale in Hong Kong, two points-of-sale in Macau and 362 points-of-sale in Mainland China under the brand name "3D-GOLD." Of the points-of-sale in Mainland China, 81 are self-operated points-of-sale and 281 are licensee points-of-sale. During the Period, 49 new shops and counters have opened in Mainland China and 32 loss-making shops and counters were closed.

The Group's self-operated points-of-sale are located at department stores or shopping malls within prime shopping districts in Mainland China and most of them are subject to turnover-based rent. The Hong Kong and Macau operations are, on the other hand, subject to fixed rentals, with some of the lease arrangements committed to paying either minimum guaranteed amounts or monthly payments in the amounts equivalent to a certain prescribed percentage of monthly sales as rental payments, whichever is higher. Management is currently engaged in negotiations with individual landlords to maintain the effective rentals at a reasonable level.

The Group's strategy in Mainland China is to continue to focus on the growth of licensee stores. This model gives the Group the option to leverage the capital, local knowledge and premises of its licensees: a flexible and fast roll out strategy that requires minimal capital outlay from the Group. This model enables the management to make critical decisions at times of market changes with minimal adverse impact on the Group.

With an aim to improve the profitability, the management has focused on the following areas through implementing 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 product series, (iv) persistent costs control; and (v) improving cash flow.

The opening, renewal and closing of the Group's points-of-sales in Hong Kong, Macau, and Mainland China will be reviewed continually to ensure consistence with its overall business plan and strategies. The Group's 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.

Management Discussion and Analysis

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:

- “Love Rhythm” Jewellery Collection; (「牽動愛」鑲飾系列)
- “Love Pulse” Jewellery Collection; (「躍動 • 愛」鑲飾系列)
- “Spellbound” Collection; (「醉迷人」系列)
- “3D-GOLD x Peter Rabbit™” Pure Gold Enamel Pendant Collection; (「3D-GOLD x Peter Rabbit™ (比得兔™)」硬金琺瑯彩吊墜系列)
- Pure Gold Gifts Collection; (「應年生肖黃金精品」系列)
- “Starry Shimmer” Jewellery Collection; (「閃醉」鑲飾系列)
- “Love Lane” Collection; (「路路愛」系列)
- “Happiness in Hand” Wedding Band Collection; (「幸福牽手」婚嫁對戒系列)
- “Pure Gold Wedding” Collection (「金妝花嫁」足金婚嫁系列)

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.

The Group's marketing programme includes sponsorships and exhibitions as follows:

- Organized a “2017 Brand Licensee Business Seminar” in Shenzhen of PRC
- Organized a “2017 Brand Product Roadshow” at the Headquarter of Hang Seng Bank in HK
- Organized the “Luxurious Jewellery Tour” in Xian and Tianjin of PRC respectively
- Participated in both 2017 Summer & Winter China Wedding Expos in Guangzhou of PRC
- Organized the “3D-GOLD x Peter Rabbit™ Roadshow” in various cities of PRC
- Organized the “3D-GOLD x Xiaohongchun App” Pop-up Stores

Management Discussion and Analysis

Awards and Achievements

The Group has also achieved industry awards as recognition of its efforts in promoting service excellence, industry best practice and its contributions to the jewellery retail sector.

- “Charter on External Lighting-Gold Award” (「戶外燈光約章 — 金獎」)
- “Q-Mark Elite Brand Award 2017 (Jewellery & Watch)” (「2017 Q 嘜人氣品牌大獎 (鐘錶珠寶類別)」)
- “CEO of the Year 2017” by Capital Entrepreneur (「年度傑出 CEO 大獎 2017」)
- “TVB Weekly Jewellery Brand Award 2017” (「TVB 週刊人氣珠寶品牌大獎 2017」)

OUTLOOK

The Group is positive about the business outlook in the medium-to-long run, despite short-term market volatility. Mainland China continues to be our major market. It remains one of the fastest-growing economies in the world and buttresses the Group’s optimistic business outlook in the medium-to-long run.

The management remains optimistic to improve its business performance. The strategic direction the Group has taken is aimed at restoring its long-term sustainable growth and profitability. The market volatility, however, may result in uncertainty for its short-term performance. The Group will continue to enhance the operational and process controls, improve its brand positioning, assist its franchisees to improve profitability, introduce products with higher gross profit margins, and maintain effective cost controls.

The Group will explore new business opportunities to diversify its business base and generate additional revenue. During the Period, the Group has set up a new business of fine gold processing to manufacture fine gold jewellery products. If the fine gold processing business is in full operation, it is expected to generate more revenue and generate cash flow for the Group. It is also the Group’s intention to reduce liabilities and benefit our shareholders and investors in long term.

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 2017, the Group had total cash and cash equivalents amounting to HK\$892 million (30 June 2017: HK\$693 million) whilst total net assets were HK\$206 million (30 June 2017: HK\$218 million). The Group’s net gearing ratio as at 31 December 2017 was 396% (30 June 2017: 317%), being a ratio of total borrowing of HK\$1,707 million (30 June 2017: HK\$1,383 million) less pledged bank deposits and bank balances and cash of HK\$892 million (30 June 2017: HK\$693 million) to total equity of HK\$206 million (30 June 2017: HK\$218 million). After taking into account the gold inventories of HK\$368 million (30 June 2017: HK\$308 million), the Group’s adjusted net gearing ratio as at 31 December 2017 was 217% (30 June 2017: 175%), being a ratio of total borrowing less pledged bank deposits, bank balances and cash and gold inventories to total equity. As at 31 December 2017, the Group has available unutilised revolving banking facilities of HK\$95 million (30 June 2017: HK\$76 million).

Management Discussion and Analysis

Capital Commitments

Capital commitments of the Group as at 31 December 2017 are set out in note 20.

Pledged Assets and Contingent Liabilities

Pledged assets of the Group as at 31 December 2017 are set out in note 22. The Group did not have any material contingent liabilities as at 31 December 2017.

Event after the end of the reporting period

On 12 January 2018, subject to the acceptance of the grantees, 316,500,000 share options to subscribe for the shares were granted to eligible participants of the Company under the share option scheme adopted by the Company on 23 January 2009.

On 13 February 2018, the Company issued 300,000,000 ordinary shares by way of placing at a price of HK\$0.08 per share.

Financial Risk and Exposure

Except for the financial derivatives set out in notes 17, the Group did not have any outstanding material foreign exchange contracts, interest or currency swaps, or other financial derivatives as at 31 December 2017.

Employees and Remuneration Policy

As at 31 December 2017, the Group had 1,377 employees (30 June 2017: 1,330). The Group's remuneration policy is periodically reviewed by the Remuneration Committee and the Board. Remuneration is determined by 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 2017, 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 shares			Total	% of issued ordinary shares
	Personal interests	Family interests	Corporate interests		
Mr. Lam Kwok Hing, Wilfred	8,880,000	560,000 (Note)	—	9,440,000	0.27%
Mr. Wu Xiaolin	—	—	—	—	—
Mr. Zhao Jianguo	—	—	—	—	—
Ms. Dai Wei	—	—	—	—	—
Dr. Loke Yu alias Loke Hoi Lam	—	—	—	—	—
Mr. Xu Xiaoping	—	—	—	—	—
Mr. Fan, Anthony Ren Da	—	—	—	—	—

Note:

The shares are held by the spouse of Mr. Lam Kwok Hing, Wilfred.

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

Name of director	Capacity	Number of shares interested	% of issued ordinary shares
Mr. Lam Kwok Hing, Wilfred	Beneficial owner (Note a)	10,398,591	0.30%
	Family interests (Note b)	40,000	0.00%
Mr. Fan, Anthony Ren Da	Beneficial owner (Note a)	2,441,942	0.07%

Notes:

- (a) All interests above are in the form of share options of the Company.
- (b) These derivatives represent the 40,000 bonus warrant shares underlying the bonus warrants held by the spouse of Mr. Lam Kwok Hing, Wilfred.

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 2017.

Other Information

SUBSTANTIAL SHAREHOLDERS

At 31 December 2017, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company.

(a) Long positions in shares of the Company

Name of substantial shareholder	Capacity	Number of issued ordinary shares held	% of issued ordinary shares
Mr. Wen Jialong	Beneficial owner	5,661,957	0.16%
	Corporate interest (Note a)	980,222,476	27.83%
Weltrade Group Limited	Beneficial owner (Note a)	980,222,476	27.83%
Kerui Jinrong Co., Limited	Person having a security interest in shares (Note b)	980,222,476	27.83%
Dr. Liu Wangzhi	Beneficial owner	15,556,000	0.44%
	Corporate interest (Note c)	186,874,847	5.31%
Mr. Wong Wai Sheung	Beneficial owner	5,831,430	0.17%
	Corporate interest (Note d)	76,899,993	2.18%
Mr. Chan Wai	Beneficial owner	1,000,000	0.03%
	Family interest	100,000	0.00%
	Corporate interest (Note d)	76,899,993	2.18%
Mr. Tse Moon Chuen	Beneficial owner	200,000	0.01%
	Corporate interest (Note d)	76,899,993	2.18%
Mr. Lee Shu Kuan	Corporate interest (Note d)	76,899,993	2.18%
Kwai Kee Cheung Jewellery & Goldsmith Company Limited	Corporate interest (Note d)	76,899,993	2.18%
Luk Fook (Control) Limited	Corporate interest (Note d)	76,899,993	2.18%
Luk Fook Holdings (International) Limited	Corporate interest (Note d)	76,899,993	2.18%

Notes:

- (a) The shares are held by Weltrade Group Limited ("Weltrade"). Weltrade is a company wholly-owned by Mr. Wen Jialong ("Mr. Wen"). As such, Mr. Wen is deemed to be interested in all the shares held by Weltrade.
- (b) Kerui Jinrong Co., Limited has a security interest in the shares held by Weltrade.
- (c) The shares are held by Ming Feng Group Holdings Limited ("Ming Feng"). Ming Feng is owned as to 49% by Ms. Chan Yangfang ("Ms. Chan"), the spouse of Dr. Liu Wangzhi ("Dr. Liu") and 51% by Dr. Liu. Ms. Chan holds 49% shares in trust for Dr. Liu. As such, Dr. Liu is deemed to have interest in all the shares in Ming Feng.
- (d) 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 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, 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.

Other Information

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

Name of substantial shareholder	Capacity	Number of shares interested	% of issued ordinary shares
Mr. Wen Jialong	Beneficial owner (Note a)	30,474,089	0.87%
Dr. Liu Wangzhi	Corporate interest (Note b)	7,500,000	0.21%
Mr. Wong Wai Sheung	Corporate interest (Note c)	317,111,111	9.00%
Mr. Chan Wai	Corporate interest (Note c)	317,111,111	9.00%
Mr. Tse Moon Chuen	Corporate interest (Note c)	317,111,111	9.00%
Mr. Lee Shu Kuan	Corporate interest (Note c)	317,111,111	9.00%
Kwai Kee Cheung Jewellery & Goldsmith Company Limited	Corporate interest (Note c)	317,111,111	9.00%
Luk Fook (Control) Limited	Corporate interest (Note c)	317,111,111	9.00%
Luk Fook Holdings (International) Limited	Corporate interest (Note c)	317,111,111	9.00%
Luk Fook 3D Management Company Limited	Beneficial owner (Note c)	317,111,111	9.00%

Notes:

- (a) These derivatives comprise the 10,474,089 bonus warrant shares underlying the bonus warrants and the interests in 20,000,000 shares in the form of share option held by Mr. Wen.
- (b) 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.
- (c) 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 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, 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 2017.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 19 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. Mrs. Wong Chew Li Chin resigned as the chairman of the Company on 31 May 2017. Mr. Wu Xiaolin was appointed as an executive Director on 31 May 2017, and has then taken up the role of chief executive of the Company. The Company has not appointed the chairman upon the resignation of Mrs. Wong Chew Li Chin, and Mr. Wu Xiaolin has been assuming the roles of chairman of the Company. The Board is of the view that vesting the roles of chairman and chief executive in Mr. Wu Xiaolin during the Period provided the Group with strong and consistent leadership and allowed for more effective and efficient business planning and decisions as well as execution of long term business strategies. Mr. Xu Zhigang was appointed as an executive Director and chief executive officer of the Company with effect from 14 February 2018.

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 2017 Annual Report is set out below:

Dr. Loke Yu alias Loke Hoi Lam was appointed as an independent non-executive director of Zhenro Properties Group Limited (Stock Code: 6158), a company which was listed on the Main Board of the Stock Exchange on 16 January 2018, and has resigned as the company secretary of Minh Group Limited (Stock Code: 425) with effect from 8 February 2018, a company listed on the Main Board of the Stock Exchange.

AUDIT COMMITTEE

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

As at the date of this report, the Audit Committee comprises three independent non-executive directors, namely, Dr. Loke Yu alias Loke Hoi Lam, Mr. Xu Xiaoping and Mr. Fan, Anthony Ren Da.

On behalf of the Board

Hong Kong Resources Holdings Company Limited

Mr. Xu Zhigang

Executive Director & Chief Executive Officer

Hong Kong, 27 February 2018

Report On Review of Condensed Consolidated Financial Statements

Deloitte.

德勤

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

香港資源控股有限公司

(incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Hong Kong Resources Holdings Company Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 18 to 40, which comprise the condensed consolidated statement of financial position as of 31 December 2017 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

27 February 2018

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 31 December 2017

	NOTES	Six months ended 31 December	
		2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Turnover	3(a)	623,093	518,117
Cost of sales		(427,466)	(329,606)
Gross profit		195,627	188,511
Other income		4,972	5,392
Selling expenses		(146,690)	(152,595)
General and administrative expenses		(50,977)	(55,905)
Other expenses and other gains and losses		(1,619)	(10,924)
Change in fair value of derivatives embedded in convertible bonds and share option		3,638	2,540
Impairment loss on investment in a film recognised		–	(10,000)
Impairment loss on investment in an associate recognised		–	(3,000)
Impairment loss on available-for-sale investments recognised	12(a)&(b)	(3,460)	–
Finance costs	4	(23,159)	(21,538)
Share of result of an associate		–	(965)
Loss before taxation	5	(21,668)	(58,484)
Taxation	6	(4,999)	(7,331)
Loss for the period		(26,667)	(65,815)
Other comprehensive income (expense):			
<i>Item that will not be reclassified to profit or loss:</i>			
Exchange difference arising on translation		6,826	(29,649)
<i>Items that may be reclassified subsequently to profit and loss:</i>			
Exchange difference arising on translation of foreign operations		8,619	–
Fair value (loss) gain on an available-for-sale investment		(840)	5,880
Investment revaluation reserve reclassified to profit or loss upon impairment of an available-for-sale investment		840	–
		8,619	5,880
Other comprehensive income (expense) for the period		15,445	(23,769)
Total comprehensive expense for the period		(11,222)	(89,584)
Loss for the period attributable to:			
Owners of the Company		(22,769)	(44,509)
Non-controlling interests		(3,898)	(21,306)
		(26,667)	(65,815)
Total comprehensive (expense) income for the period attributable to:			
Owners of the Company		(12,547)	(59,380)
Non-controlling interests		1,325	(30,204)
		(11,222)	(89,584)
Loss per ordinary share	8		
Basic and diluted		(HK\$0.006)	(HK\$0.013)

Condensed Consolidated Statement of Financial Position

As at 31 December 2017

	NOTES	31 December 2017 HK\$'000 (Unaudited)	30 June 2017 HK\$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current Assets			
Property, plant and equipment	9	45,770	42,834
Deposits paid	10	6,522	5,722
Intangible assets	11	169,144	169,144
Interest in a joint venture		—	—
Available-for-sale investments	12	23,520	26,980
Deferred tax assets		17,336	17,884
		262,292	262,564
Current Assets			
Inventories		910,133	801,074
Trade and other receivables and deposits paid	10	175,550	124,291
Amount due from a joint venture		—	8
Tax recoverable		3,479	—
Pledged bank deposits		756,864	578,301
Bank balances and cash		135,009	114,953
		1,981,035	1,618,627
Current Liabilities			
Trade and other payables, accruals and deposits received	13	281,467	233,069
Bank and other borrowings	14	1,492,269	1,089,505
Gold loans	15	—	84,823
Amount due to a joint venture		27	—
Loan from a non-controlling shareholder of a subsidiary	16	43,190	43,190
Loan from a shareholder	16	5,500	2,000
Tax liabilities		5,555	1,656
		1,828,008	1,454,243
Net Current Assets		153,027	164,384
Total Assets Less Current Liabilities		415,319	426,948

Condensed Consolidated Statement of Financial Position

As at 31 December 2017

	NOTES	31 December 2017 HK\$'000 (Unaudited)	30 June 2017 HK\$'000 (Audited)
Non-current Liabilities			
Convertible bonds	17(a)	46,295	43,064
Derivative financial instruments	17(b)	661	4,299
Bank and other borrowings	14	20,000	20,000
Loan from a non-controlling shareholder of a subsidiary	16	100,000	100,000
Deferred tax liabilities		42,016	42,016
		208,972	209,379
NET ASSETS		206,347	217,569
CAPITAL AND RESERVES			
Share capital	18	35,224	35,224
Reserves		107,368	119,915
Equity attributable to owners of the Company		142,592	155,139
Non-controlling interests		63,755	62,430
TOTAL EQUITY		206,347	217,569

Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 December 2017

	Attributable to owners of the Company												Non-controlling interests	Total
	Ordinary	Share premium	Contributed surplus	Other reserve	Share	Investment			PRC		Total			
	share capital				option reserve	Warrant reserve	revaluation reserve	Exchange reserve	statutory reserve	Accumulated losses				
	HK\$'000				HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		HK\$'000		
				(Note (a))		(Note (c))				(Note (b))				
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 (Notes (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	
At 1 July 2017 (audited)	35,224	717,743	55,327	(256,051)	13,405	21,819	-	5,462	30,334	(468,124)	155,139	62,430	217,569	
Loss for the period	-	-	-	-	-	-	-	-	-	(22,769)	(22,769)	(3,898)	(26,667)	
Exchange difference arising on translation	-	-	-	-	-	-	-	10,222	-	-	10,222	5,223	15,445	
Fair value loss on an available-for-sale investment	-	-	-	-	-	-	(840)	-	-	-	(840)	-	(840)	
Investment revaluation reserve reclassified to profit and loss in relation to impairment loss on an available-for-sale investment	-	-	-	-	-	-	840	-	-	-	840	-	840	
Total comprehensive income (expense) for the period	-	-	-	-	-	-	-	10,222	-	(22,769)	(12,547)	1,325	(11,222)	
Transfer between reserves	-	-	-	-	-	-	-	-	3,156	(3,156)	-	-	-	
Lapse of share options	-	-	-	-	(1,055)	-	-	-	-	1,055	-	-	-	
At 31 December 2017 (unaudited)	35,224	717,743	55,327	(256,051)	12,350	21,819	-	15,684	33,490	(492,994)	142,592	63,755	206,347	

Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 December 2017

Notes:

(a) Other reserve comprises:

- (i) 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;
- (ii) 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;
- (iii) 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 17(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 17(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;
- (iv) 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;
- (v) 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;
- (vi) 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; and
- (vii) a credit amount of HK\$3,088,000 represents certain amounts previously recognised in other reserve (including those in Notes (a)(iv), (v) and (vi) transferred to accumulated losses following the disposal of certain subsidiaries during the year ended 30 June 2017).

(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 were established in accordance with the relevant regulations.

(c) Warrant reserve arises from the issue of warrants less the expenses incurred on warrants issue. On 31 January 2013, the Company executed a warrant instrument relating to the issue of warrants conferring rights to subscribe up to 196,908,602 new ordinary shares of the Company at the subscription price of HK\$0.245 per share, which are exercisable during the 5 years period from 31 January 2013 to 30 January 2018, both days inclusive. As at 31 December 2017, the Company had outstanding 196,808,925 (30 June 2017: 196,811,925) units of warrants.

Condensed Consolidated Statement of Cash Flows

For the six months ended 31 December 2017

	Six months ended 31 December	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Net cash used in operating activities	(98,910)	(57,875)
Investing activities		
Interest received	2,268	3,213
Purchase of property, plant and equipment	(14,365)	(6,431)
Proceeds from disposal of property, plant and equipment	2,064	345
Repayment of loan receivable	—	3,900
Advance to an associate	—	(16)
Placement of pledged bank deposits	(391,364)	(180,822)
Withdrawal of pledged bank deposits	218,353	44,377
Net cash used in investing activities	(183,044)	(135,434)
Financing activities		
Interest paid	(19,072)	(17,541)
Loan from a non-controlling shareholder of a subsidiary	—	3,000
Loan from a shareholder	3,500	—
New bank and other borrowings	553,360	353,000
Repayment of bank and other borrowings	(150,596)	(90,000)
Repayment of gold loans	(86,498)	(18,410)
Net cash from financing activities	300,694	230,049
Net increase in cash and cash equivalents	18,740	36,740
Cash and cash equivalents at beginning of the period	114,953	94,079
Effect of foreign exchange rate changes	1,316	(1,712)
Cash and cash equivalents at end of the period, represented by bank balances and cash	135,009	129,107

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2017

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 (the “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 method of computation used in the condensed consolidated financial statements for the six months ended 31 December 2017 are the same as those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 30 June 2017.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvement to HKFRSs 2014-2016 Cycle

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. Additional disclosures about changes in liabilities arising from financing activities, including both changes from cash flows and non-cash changes on application of amendments to HKAS 7 will be provided in the consolidated financial statements for the year ending 30 June 2018.

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	
	2017 HK\$’000 (Unaudited)	2016 HK\$’000 (Unaudited)
Sales of goods	583,987	485,663
Franchise income	3,589	847
Licence income	35,517	31,340
Television programmes and content production income	—	150
Net return from performance events	—	117
	623,093	518,117

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2017

3. TURNOVER AND SEGMENT INFORMATION (Continued)

(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:

- Sales and franchising operations for gold and jewellery products in Mainland China; and
- Sales operations for 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.

For the six months ended 31 December 2017 (unaudited)

	Reportable segments		
	Sales and franchising operations for gold and jewellery products in Mainland China HK\$'000	Sales operations for gold and jewellery products in Hong Kong and Macau HK\$'000	Consolidated HK\$'000
REVENUE			
External sales	412,567	210,526	623,093
RESULT			
Segment results	24,514	3,906	28,420
Other income			4,972
Unallocated staff related expenses			(17,816)
Other unallocated corporate expenses			(6,931)
Advertising, promotion and business development expenses			(10,639)
Change in fair value of derivatives embedded in convertible bonds			3,638
Exchange gain			3,307
Impairment loss on available-for-sale investments recognised			(3,460)
Finance costs			(23,159)
Loss before taxation			(21,668)
Taxation			(4,999)
Loss for the period			(26,667)

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2017

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
	Sales and franchising operations for gold and jewellery products in Mainland China HK\$'000	Sales operations for 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					(8,602)
Advertising, promotion and business development expenses					(15,981)
Change in fair value of derivatives embedded in convertible bonds and share option					2,540
Exchange loss					(4,308)
Impairment loss on investment in a film recognised					(10,000)
Impairment loss on investment in an associate recognised					(3,000)
Finance costs					(21,538)
Share of result of an associate					(965)
Loss before taxation					(58,484)
Taxation					(7,331)
Loss for the period					(65,815)

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, exchange gain (loss), impairment loss on available-for-sale investments recognised, impairment loss on investment in a film recognised, impairment loss on investment in an associate 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. The subsidiaries were disposed of during the year ended 30 June 2017 and accordingly there is no other segment presented in the six months ended 31 December 2017.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2017

4. FINANCE COSTS

	Six months ended 31 December	
	2017	2016
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Interests on:		
Bank and other borrowings	17,770	10,609
Gold loans	867	3,067
Loan from a non-controlling shareholder of a subsidiary	435	202
Effective interest on convertible bonds (note 17(a))	4,087	7,660
	23,159	21,538

5. LOSS BEFORE TAXATION

	Six months ended 31 December	
	2017	2016
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Loss before taxation has been arrived at after charging (crediting):		
Change in fair value of gold loans (included in cost of sales)	(539)	(8,700)
Cost of inventories recognised as an expense	428,005	332,473
Depreciation of property, plant and equipment	9,323	9,493
Exchange (gain) loss, net	(3,307)	4,308
Loss on disposal of property, plant and equipment	690	376
Interest income	(2,268)	(3,213)
Operating lease rentals		
– contingent rental	36,079	34,227
– minimum lease payments	26,356	32,657

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2017

6. TAXATION

	Six months ended 31 December	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Current tax:		
PRC Enterprise Income Tax	4,451	2,472
Deferred taxation	548	4,859
	4,999	7,331

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 periods 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 2014) 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 each subsidiary’s total revenue in a fiscal year.

No provision for the Macau Complementary Tax has been made as the assessable profits are fully absorbed by the tax losses carried forward from prior periods.

7. DIVIDENDS

The Board has resolved not to recommend an interim dividend in respect of the six months ended 31 December 2017 and 31 December 2016 to the holders of ordinary shares of the Company.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2017

8. LOSS PER ORDINARY SHARE

	Six months ended 31 December	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Loss:		
Loss for the period attributable to owners of the Company for the purpose of basic and diluted loss per ordinary share	(22,769)	(44,509)
	'000 (Unaudited)	'000 (Unaudited)
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per ordinary share	3,522,397	3,522,394

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 (as defined in note 17(a)) (six months ended 31 December 2016: CB 2019 and 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\$14,365,000 (six months ended 31 December 2016: HK\$6,431,000).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2017

10. TRADE AND OTHER RECEIVABLES AND DEPOSITS PAID

	31 December 2017 HK\$'000 (Unaudited)	30 June 2017 HK\$'000 (audited)
Deposits paid under non-current assets represent:		
Rental and utility deposits	6,522	5,722
Trade and other receivables and deposits paid under current assets comprise:		
Trade receivables	109,471	87,600
Less: allowance for doubtful debts	(11,533)	(11,533)
	97,938	76,067
Other receivables and deposits paid	77,612	48,224
	175,550	124,291

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 other receivables and deposits paid as at 31 December 2017 is other receivables from a fellow subsidiary of a non-controlling shareholder of a subsidiary amounting to HK\$549,000 (30 June 2017: HK\$566,000).

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 2017 HK\$'000 (Unaudited)	30 June 2017 HK\$'000 (audited)
0 – 30 days	83,942	55,732
31 – 60 days	7,676	6,340
61 – 90 days	1,540	3,067
Over 90 days	4,780	10,928
	97,938	76,067

The allowance of doubtful debts of HK\$11,533,000 (30 June 2017: 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 2017

11. INTANGIBLE ASSETS

	31 December 2017 HK\$'000 (Unaudited)	30 June 2017 HK\$'000 (audited)
Trademarks (Note)	168,066	168,066
License	1,078	1,078
	169,144	169,144

Note: 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 2017, 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 ten-year period and a discount rate of 16.5% (30 June 2017: 16.5%). The cash flows beyond the ten-year period are extrapolated using a 3% (30 June 2017: 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.

12. AVAILABLE-FOR-SALE INVESTMENTS

	31 December 2017 HK\$'000 (Unaudited)	30 June 2017 HK\$'000 (audited)
A private entity (Note (a))	—	2,620
Equity investment listed in Hong Kong (Note (b))	23,520	24,360
	23,520	26,980

Notes:

- (a) The amount as at 30 June 2017 represented equity investments in a private limited company that is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably. The balance was fully impaired during the six months ended 31 December 2017 (for the six months ended 31 December 2016: nil) taking into consideration of future operation of the investee.
- (b) 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. Impairment of HK\$840,000 (for the six months ended 31 December 2016: nil) was provided as the management considered that the decrease in fair value is significant.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2017

13. TRADE AND OTHER PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

	31 December 2017 HK\$'000 (Unaudited)	30 June 2017 HK\$'000 (Audited)
Trade payables	87,384	91,533
Deposits received from customers (Note (a))	25,312	16,185
Franchisee guarantee deposits (Note (b))	47,251	47,912
Other payables, accruals and other deposits	121,520	77,439
	281,467	233,069

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 2017 are trade payables to certain fellow subsidiaries of a non-controlling shareholder of a subsidiary amounting to HK\$5,414,000 (30 June 2017: HK\$26,185,000).

Included in franchisee guarantee deposits and other payables, accruals and other deposits as at 31 December 2017 are deposits received from and other payables to certain fellow subsidiaries of a non-controlling shareholder of a subsidiary amounting to HK\$1,567,000 (30 June 2017: HK\$1,392,000) and HK\$1,805,000 (30 June 2017: HK\$2,572,000) 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\$2,439,000 (30 June 2017: HK\$2,477,000).

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

	31 December 2017 HK\$'000 (Unaudited)	30 June 2017 HK\$'000 (audited)
0 – 30 days	64,979	35,360
31 – 60 days	16,873	16,250
61 – 90 days	1,953	11,257
Over 90 days	3,579	28,666
	87,384	91,533

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14. BANK AND OTHER BORROWINGS

	31 December 2017 HK\$'000 (Unaudited)	30 June 2017 HK\$'000 (audited)
Secured floating rate bank borrowings	1,455,500	1,080,890
Unsecured fixed rate other borrowings from independent third parties	56,769	28,615
	1,512,269	1,109,505
Carrying amounts repayable:		
On demand or within one year*	956,769	889,615
More than two years but not exceeding five years*	20,000	20,000
	976,769	909,615
Carrying amount of bank loans that contain a repayment on demand clause (shown under current liabilities):		
– Repayable within one year*	535,500	199,890
	1,512,269	1,109,505
Less: Amounts due within one year and shown under current liabilities	(1,492,269)	(1,089,505)
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.

15. 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 30 June 2017, the gold loan from a fellow subsidiary of a non-controlling shareholder of a subsidiary amounting to RMB73,737,000 (equivalent to HK\$84,823,000) is unsecured, interest bearing at a fixed rate of 4.5% per annum and repayable on demand. Such gold loan was fully repaid in the current period.

The gain arising from change in fair value of gold loans of HK\$539,000 (six months ended 31 December 2016: HK\$8,700,000) has been recognised in profit or loss for the six months ended 31 December 2017. Fair values of the gold loans were determined by reference to the quoted bid prices of gold on the Shanghai Gold Exchange at the end of reporting period.

16. LOANS FROM A NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY/A SHAREHOLDER

The loan from a non-controlling shareholder of a subsidiary is 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\$43,190,000 (30 June 2017: HK\$43,190,000) which is unsecured, interest bearing at 2% per annum and repayable in May 2018.

The loan from a shareholder is unsecured, interest-free and repayable on demand.

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17. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS

(a) Convertible bonds

Convertible bonds due 2019 ("CB 2019")

The movement of the liability components of the CB 2019 for the current period are set out as below:

	HK\$'000
At 1 July 2017	43,064
Coupon interest accrued at 1 July 2017 and included in other payables	823
Interest charged during the period	4,087
Coupon interest accrued at 31 December 2017 and included in other payables	(1,679)
At 31 December 2017	46,295

During the six months ended 31 December 2017 and 31 December 2016, the effective interest rates of CB 2019 were 18.38% and 19.47% per annum respectively.

(b) Derivative financial instruments

Derivatives embedded in CB 2019

The fair values of the embedded derivatives in CB 2019 at 30 June 2017 and 31 December 2017 are based on valuation carried out on those dates by an independent valuer. The change in fair value of HK\$3,638,000 (for the six months ended 31 December 2016: HK\$2,534,000) has been credited to profit or loss for the six months ended 31 December 2017.

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 2017	At 30 June 2017
Share price	HK\$0.076	HK\$0.11
Exercise price	HK\$0.18	HK\$0.18
Expected dividend yield	0.00%	0.00%
Volatility	43.14%	42.14%
Risk free rate	1.14%	0.78%

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18. SHARE CAPITAL

	Notes	Number of shares '000	Amount HK\$'000
Authorised:			
<u>Ordinary shares of HK\$0.01 each</u>			
At 1 July 2017		6,000,000	60,000
Increase on 10 August 2017	(a)	14,000,000	140,000
At 31 December 2017		20,000,000	200,000
<u>Preference shares of HK\$0.01 each</u>			
At 1 July 2017 and 31 December 2017		3,000,000	30,000
Total:			
At 1 July 2017		9,000,000	90,000
At 31 December 2017		23,000,000	230,000
Ordinary shares issued and fully paid:			
<u>Ordinary shares of HK\$0.01 each</u>			
At 1 July 2017		3,522,394	35,224
Exercise of warrants	(b)	3	–
At 31 December 2017		3,522,397	35,224

Notes:

- (a) Pursuant to the ordinary resolution passed on 10 August 2017, the total authorised share capital of the Company was increased from HK\$90,000,000 to HK\$230,000,000, of which the authorised ordinary shares increased from HK\$60,000,000 divided into 6,000,000,000 ordinary shares of par value HK\$0.01 each to HK\$200,000,000 by the creation of additional 14,000,000,000 ordinary shares of par value HK\$0.01 each.
- (b) During the period, the Company issued 3,000 (six months ended 31 December 2016: nil) 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.

19. 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 2017 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.

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19. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

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 1.7.2017	Lapsed during the year	Outstanding as at 31.12.2017
Directors	23.1.2009	23.1.2009 to 22.1.2019	0.4280	525,604	—	525,604
	20.7.2009	20.7.2009 to 19.7.2019	1.2980	1,861,408	(581,690)	1,279,718
	26.7.2011	26.7.2011 to 25.7.2021	0.4810	1,163,380	—	1,163,380
	26.7.2011	26.7.2012 to 25.7.2021	0.4810	1,745,070	—	1,745,070
	26.7.2011	26.7.2013 to 25.7.2021	0.4810	2,326,761	—	2,326,761
	25.1.2013	28.2.2013 to 24.1.2023	0.2288	2,600,000	(2,000,000)	600,000
	25.1.2013	28.2.2014 to 24.1.2023	0.2288	4,600,000	(2,000,000)	2,600,000
	25.1.2013	28.2.2015 to 24.1.2023	0.2288	4,600,000	(2,000,000)	2,600,000
				19,422,223	(6,581,690)	12,840,533
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	1,000,000	—	1,000,000
	25.1.2013	28.2.2014 to 24.1.2023	0.2288	1,000,000	—	1,000,000
	25.1.2013	28.2.2015 to 24.1.2023	0.2288	2,500,000	—	2,500,000
	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
				25,663,380	—	25,663,380
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
	25.1.2013	28.2.2013 to 24.1.2023	0.2288	800,000	—	800,000
	25.1.2013	28.2.2014 to 24.1.2023	0.2288	800,000	—	800,000
	25.1.2013	28.2.2015 to 24.1.2023	0.2288	800,000	—	800,000
				23,303,616	—	23,303,616
				68,389,219	(6,581,690)	61,807,529
Exercisable at the end of the year				68,389,219		61,807,529
Weighted average exercise price				0.5950	0.3233	0.6240

The variables and assumptions used in computing the fair value of the share options are based on binomial option pricing model. 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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20. CAPITAL COMMITMENTS

	31 December 2017 HK\$'000 (Unaudited)	30 June 2017 HK\$'000 (audited)
Capital expenditure in respect of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	11,491	919

21. 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 2017 HK\$'000 (Unaudited)	30 June 2017 HK\$'000 (audited)
Within one year	38,527	29,882
In the second to fifth year inclusive	46,047	28,424
	84,574	58,306

Leases are negotiated for lease terms of one to five years (30 June 2017: 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.

The above lease commitments as at 31 December 2017 included the non-cancellable operating lease with a fellow subsidiary of a non-controlling shareholder of the Company amounted to HK\$3,674,000 (30 June 2017: HK\$556,000) in the band of "within one year" and HK\$2,240,000 (30 June 2017: HK\$6,918,000) in the band of "in the second to five year inclusive".

22. PLEDGE OF ASSETS

As at 31 December 2017, the Group's bank deposits with carrying amounts of HK\$756,864,000 (30 June 2017: HK\$578,301,000) were pledged to banks as securities to obtain the banking facilities granted to the Group.

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23. 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	
		2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
An available-for-sale investment	Consultancy fee income	–	1,402
A joint venture	Purchase of jewellery	35	–
A former substantial shareholder of the Company	Consultancy fee	–	750
A non-controlling shareholder of a subsidiary	Interest expense	435	202
Fellow subsidiaries of a non-controlling shareholder of a subsidiary	Interest on gold loans	867	2,137
	License income	1,113	1,333
	Purchase of good and jewellery products	17,099	16,217
	Rental expense	1,582	305
	Sales of jewellery	5,919	1,200
	Specialty fee	102	125
	Subcontracting fee	217	205
A company in which a director of a subsidiary has beneficial interest	License and service fee	2,439	2,099

As at 31 December 2017, the ultimate holding company of a non-controlling shareholder of a subsidiary issued financial guarantee amounting to HK\$893,036,000 (30 June 2017: HK\$772,953,000) 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, 13, 15 and 16.

(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	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Fees	605	990
Salaries	4,576	5,122
Retirement benefit costs	54	36
	5,235	6,148

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24. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

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

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

Financial assets/liabilities included in the condensed consolidated statement of financial position		Fair value as at		Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs
		31 December 2017	30 June 2017			
		HK\$'000	HK\$'000			
1)	Available-for-sale financial assets	23,520	24,360	Level 1	Bid prices quoted in active market.	Not applicable
2)	Gold loans	–	(84,243)	Level 2	Quoted bid prices of gold	Not applicable
3)	Conversion option derivatives embedded in convertible bonds	(661)	(4,299)	Level 3	Binomial option pricing model The fair value is estimated based on the risk free rate, share price, volatility of the share price of the Company, dividend yield and exercise price.	Volatility of the share price determined by reference to the historical share price of the Company (Note)

Note: The higher the volatility of the share price of the Company, the higher the fair value of the conversion option derivative. For the volatility of the share price of the Company used in the fair value measurement, please refer to note 17(b).

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24. 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 2016	6	5,930
Fair value gain recognised in profit or loss	(6)	(1,631)
At 30 June 2017	–	4,299
Fair value gain recognised in profit or loss	–	(3,638)
At 31 December 2017	–	661

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 financial 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.

25. EVENTS AFTER THE REPORTING PERIOD

On 12 January 2018, subject to the acceptance of the grantees, 316,500,000 share options to subscribe for the shares were granted to the employees of the Company under the share option scheme adopted by the Company on 23 January 2009.

On 13 February 2018, the Company issued 300,000,000 ordinary shares by way of placing at a price of HK\$0.08 per share.