香港資源控股
HONG KONG RESOURCES HOLDINGS

HONG KONG RESOURCES HOLDINGS COMPANY LIMITED
香港資源控股有限公司

(Incorporated in Bermuda with limited liability
and carrying on business in Hong Kong as HKRH China Limited)
(Stock code: 2882)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2014

The board of directors (the "**Board**") of Hong Kong Resources Holdings Company Limited (the "**Company**") announces the unaudited interim results of the Company and its subsidiaries (collectively the "**Group**") for the six months ended 31 December 2014 (the "**Period**").

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31 December 2014

	Notes	**6 months ended 31 December 2014** ***HK$'000*** ***(Unaudited)***	6 months ended 31 December 2013 *HK$'000* *(Unaudited)*
Turnover	*3*	**680,336**	852,677
Cost of sales		**(454,778)**	(625,365)
Gross profit		**225,558**	227,312
Other income		**19,849**	22,878
Selling expenses		**(165,082)**	(196,495)
General and administrative expenses		**(70,156)**	(86,771)
Impairment loss on trade receivables recognised		**(3,628)**	(710)
Other operating expenses		**(14,868)**	(10,606)

	Notes	**6 months ended 31 December 2014** ***HK$'000*** ***(Unaudited)***	6 months ended 31 December 2013 *HK$'000* *(Unaudited)*
Loss from operations		**(8,327)**	(44,392)
Change in fair value of derivative financial instruments		**24,009**	4,601
Impairment loss on amount due from a joint venture recognised		**(2,800)**	–
Finance costs	*4*	**(23,946)**	(28,467)
Share of results of associates		**–**	(1,302)
Share of results of joint ventures		**(15)**	(13)
Loss before taxation	*5*	**(11,079)**	(69,573)
Taxation	*6*	**(9,780)**	(344)
Loss for the period		**(20,859)**	(69,917)
Other comprehensive income:			
Item that will not be reclassified to profit or loss:			
Exchange difference arising on translation		**1,285**	4,380
Total comprehensive expense for the period		**(19,574)**	(65,537)
Loss for the period attributable to:			
Owners of the Company		**(7,642)**	(69,720)
Non-controlling interests		**(13,217)**	(197)
		(20,859)	(69,917)
Total comprehensive expense for the period attributable to:			
Owners of the Company		**(7,975)**	(65,340)
Non-controlling interests		**(11,599)**	(197)
		(19,574)	(65,537)
Loss per ordinary share	*8*		
Basic		**(HK$0.002)**	(HK$0.023)
Diluted		**(HK$0.008)**	(HK$0.023)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Notes	31 December 2014 HK$'000 (Unaudited)	30 June 2014 HK$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**56,605**	63,845
Deposits for acquisition of property, plant and equipment		**–**	263
Other receivables and deposits paid	*9*	**15,473**	12,779
Goodwill		**9,995**	9,995
Intangible assets		**170,641**	174,718
Interests in joint ventures		**3,498**	3,513
Available-for-sale investments		**3,388**	–
Deferred tax assets		**28,773**	31,807
		288,373	296,920
Current assets			
Inventories		**988,818**	822,842
Trade and other receivables and deposits paid	*9*	**258,595**	195,720
Loans to related parties		**73,362**	123,177
Amount due from a joint venture		**205**	1,963
Financial assets at fair value through profit or loss		**–**	10,949
Tax recoverable		**143**	372
Pledged bank deposits		**396,337**	431,716
Bank balances and cash		**174,641**	357,952
		1,892,101	1,944,691

	Notes	31 December 2014 HK$'000 (Unaudited)	30 June 2014 HK$'000 (Audited)
Current liabilities			
Trade and other payables, accruals and deposits received	*10*	**334,413**	258,549
Amounts due to joint ventures		**3,618**	3,628
Obligations under finance leases		**111**	148
Bank and other borrowings		**444,394**	510,162
Gold loans	*11*	**436,274**	494,329
Loan from a non-controlling shareholder of a subsidiary		**20,000**	–
Tax liabilities		**9,527**	3,209
		1,248,337	1,270,025
Net current assets		**643,764**	674,666
Total assets less current liabilities		**932,137**	971,586
Non-current liabilities			
Convertible bonds	*12*	**60,336**	56,470
Derivative financial instruments	*12*	**42,400**	66,409
Obligations under finance leases		**168**	242
Bank and other borrowings		**20,000**	20,000
Loan from a non-controlling shareholder of a subsidiary		**100,000**	100,000
Deferred tax liabilities		**42,023**	42,213
		264,927	285,334
NET ASSETS		**667,210**	686,252
CAPITAL AND RESERVES			
Share capital	*13*	**31,885**	31,885
Reserves		**416,317**	423,760
Equity attributable to owners of the Company		**448,202**	455,645
Non-controlling interests		**219,008**	230,607
TOTAL EQUITY		**667,210**	686,252

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2014

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 31 December 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2014.

Application of new and revised Hong Kong Financial Reporting Standards

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

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

The application of the new and revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. TURNOVER AND SEGMENT INFORMATION

(a) Turnover

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

	6 months ended 31 December 2014 *HK$'000* *(Unaudited)*	6 months ended 31 December 2013 *HK$'000* *(Unaudited)*
Sales of goods	**615,226**	789,366
Franchise income	**8,791**	8,802
License income	**51,554**	54,509
Television programmes and content production income	**4,765**	–
	680,336	852,677

(b) Segment Information

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

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

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.

For the six months ended 31 December 2014 (unaudited)

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

For the six months ended 31 December 2013 (unaudited)

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

Segment profit (loss) represents the profit (loss) of each segment without allocation of other income, advertising, promotion and business development expenses, corporate staff and directors' salaries, equity-settled share-based payments, change in fair value of derivative financial instruments, impairment loss on other receivables recognised, impairment loss on amount due from a joint venture recognised, impairment loss on intangible assets recognised, finance costs, share of results of associates and joint ventures, and taxation. This is the measure reported to the chief operating decision makers for the purposes of resource allocation and performance assessment.

Note: Others represent other operating segments that are not reportable, which include online marketing, e-commence and television programmes and content production.

4. FINANCE COSTS

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

5. LOSS BEFORE TAXATION

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

6. TAXATION

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

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

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

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

7. DIVIDENDS

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

8. LOSS PER ORDINARY SHARE

	6 months ended 31 December 2014	6 months ended 31 December 2013
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Loss:		
Loss for the period attributable to owners of the Company for the purpose of basic loss per ordinary share	**(7,642)**	(69,720)
Effect of dilutive potential ordinary shares:		
Interest on CB 2019 (as defined in note 12(a))	**2,703**	–
Change in fair value in derivatives embedded in CB 2019	**(21,436)**	–
Loss for the period attributable to owners of the Company for the purpose of diluted loss per ordinary share	**(26,375)**	(69,720)

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

Note:

The computation of diluted loss per ordinary share for the six months ended 31 December 2014 did not assume the exercise of certain share options and bonus warrants because their exercise price is higher than the average share price, and the conversion of CGS CB 2018 (as defined in note 12(a)) and the Group's certain outstanding bonus warrants since their conversion would result in a decrease in loss per ordinary share.

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

9. TRADE AND OTHER RECEIVABLES AND DEPOSITS PAID

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

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

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

The following is an aged analysis of trade receivables presented based on the invoice date, net of allowance, at the end of the reporting period.

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

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

10. TRADE AND OTHER PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

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

Notes:

(a) Deposits received from customers represent deposits and receipts in advance from the franchisees and customers for sales of inventories.

(b) Franchisee guarantee deposits represent deposits from the franchisees for use of the trademarks "3D-GOLD".

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

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

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

11. GOLD LOANS

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

As at 31 December 2014 and 30 June 2014, the gold loans are denominated in Renminbi, interest bearing at a weighted average rate of 4.77% (30 June 2014: 4.94%) per annum with original maturity of twelve months, and secured by inventories with a carrying amount of HK$695,674,000 (30 June 2014: HK$691,302,000), bank deposit of HK$14,006,000 (30 June 2014: HK$32,851,000) and trade receivables of HK$82,499,000 (30 June 2014: HK$40,990,000).

The gain arising from change in fair value of gold loans of HK$32,269,000 (six months ended 31 December 2013: HK$13,535,000) has been recognised in profit or loss for the six months ended 31 December 2014. Fair values of the gold loans have been determined by reference to the quoted bid prices of gold on the Shanghai Gold Exchange at the end of reporting period.

12. CONVERTIBLE BONDS

(a) Convertible bonds

Convertible bonds due 2013 ("CB 2013")

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

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

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

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

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

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

(b) Derivative financial instruments

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

(i) Derivatives embedded in convertible bonds

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

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

CB 2019

	At issue date *(Note)*	**At 31 December 2014**
Share price	HK$0.26	HK$0.19
Exercise price	HK$0.18	HK$0.18
Expected dividend yield	0.00%	0.00%
Volatility	48.65%	47.77%

CGS CB 2018

	At 30 June 2014	**At 31 December 2014**
Share price	US$18,322.31	US$17,884.82
Exercise price	US$24,390.24	US$24,390.24
Expected dividend yield	3.03%	2.95%
Volatility	34.86%	36.47%

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

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

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

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

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

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

13. SHARE CAPITAL

	Number of shares *'000*	**Amount** *HK$'000*
Authorised:		
At 1 July 2014 and 31 December 2014		
Ordinary shares of HK$0.01 each	4,000,000	40,000
Preference shares of HK$0.01 each	3,000,000	30,000
	7,000,000	70,000
Ordinary shares issued and fully paid:		
Ordinary shares of HK$0.01 each		
At 1 July 2014	3,188,491	31,885
Exercise of warrants *(Note)*	3	–
At 31 December 2014	3,188,494	31,885
Total:		
At 1 July 2014	3,188,491	31,885
At 31 December 2014	3,188,494	31,885

Note:

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

14. CAPITAL COMMITMENTS

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

15. CONTINGENT LIABILITIES

As at 31 December 2014, the Group had an outstanding financial guarantee amounting to HK$3,000,000 (30 June 2014: HK$3,000,000) issued to a bank in respect of a banking facility granted to a joint venture.

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

16. PLEDGE OF ASSETS

As at 31 December 2014, the Group's inventories, bank deposits and trade receivables with a carrying amount of HK$695,674,000 (30 June 2014: HK$691,302,000), HK$396,337,000 (30 June 2014: HK$431,716,000) and HK$82,499,000 (30 June 2014: HK$40,990,000), respectively were pledged to banks as securities to obtain the banking facilities granted to subsidiaries of the Group.

In addition, the Group's inventories with a carrying amount of RMB4,000,000 (equivalent to HK$5,059,000) (30 June 2014: RMB4,000,000 (equivalent to HK$5,028,000)) were pledged to an independent third party as securities for other borrowing of HK$3,794,000 (30 June 2014: HK$3,771,000) to the Group.

17. EVENTS AFTER THE END OF THE REPORTING PERIOD

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

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

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

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

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

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

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

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

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

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

Based on the current operation, the retail value of the 3D-GOLD brand, that is sales made by all 3D-GOLD stores, including self operated and franchise stores, amounted to HK$1,640.0 million for the Period, a decrease of 4.6% from last year. In addition to above, various measures were undertaken and discussed in the "Business Review" section, whereby via working closely with our franchisees, through time, the brand value will be reflected in the Group's financial results.

The priority of the management for the Period continues to focus on improving operational performance. The proactive initiatives have resulted in a gradual improvement on the Group's financial results for the Period, where there is a reduction in loss for the Period to HK$20.9 million (2013: HK$69.9 million).

INTERIM DIVIDEND

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

BUSINESS REVIEW AND PROSPECTS

Retail Operations

Overall turnover from the Hong Kong and Macau retail operations has reached HK$250.2 million (Last Period: HK$93.3 million) and HK$425.3 million (Last Period: HK$758.7 million) from the Mainland China operations. The decrease in turnover for the Period was mainly due to the closure of non-performing stores and change in business model for franchisee, as compared to the Last Period.

As at 31 December 2014, the Group has 6 points-of-sale in Hong Kong, 3 points-of-sale in Macau and 398 points-of-sale in Mainland China under the brandname “3D-GOLD”. Of the points-of-sale in Mainland China, 93 are self-operated points-of-sale and 305 are franchise points-of-sale. During the Period, 53 new shops and counters have opened in Mainland China and 57 loss making stores were closed.

Over 80% of our self-operated points-of-sale are located at department stores in Mainland China at prime shopping districts and are subject to turnover rent. The Hong Kong and Macau operations are, on the other hand, mainly subject to fixed rentals, with some of the lease arrangements are committed to paying either minimum guaranteed amounts or monthly payments in the amounts equivalent to certain prescribed percentage of monthly sales as rental payments, whichever is the higher.

Our strategy in Mainland China is to continue to focus on the growth of franchisee stores, with a target of 20% self-operated stores and 80% franchise stores in the long run. Our model gives us the option to leverage on the capital, local knowledge and premises of our franchisees: a flexible and fast roll out strategy that requires minimal capital outlay from the Group. Our model enables the management to make critical decisions at times of market changes with minimal adverse impact on the Group.

With a view to improve the profitability, the management has focused on the following areas with various measures: (i) to adjust the sales network by focusing on profit making stores and closing down non-performing stores, (ii) introducing a new regional franchisee system to strengthen the retail operations, (iii) continuing to develop and promote new series products, (iv) persistent costs control; and (v) improving cash flow.

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

Brand Recognition and Marketing Programme

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

Products and awards

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

E-Commerce and Corporate Gifts

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

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

Clean Energy

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

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

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

Outlook

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

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

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

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

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

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

Capital Commitments and Contingent Liabilities

Capital commitments and contingent liabilities of the Group as at 31 December 2014 are set out in notes 14 and 15.

Pledge of Assets

Pledge of assets of the Group as at 31 December 2014 is set out in note 16.

Financial Risk and Exposure

Except for the financial derivatives set out on the condensed consolidated statement of financial position and in notes 11 and 12, the Group did not have any outstanding material foreign exchange contracts, interest or currency swaps, or other financial derivatives as at 31 December 2014.

Employees and Remuneration Policy

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

COMPLIANCE WITH THE CODE PROVISIONS ON CORPORATE GOVERNANCE CODE

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

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

CG Code A.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The Company does not at present have any office with the title "chief executive". The Board is of the view that currently vesting the roles of chairman and chief executive in Dr. Wong, Kennedy Ying Ho provides the Group with strong and consistent leadership and allows for more effective and efficient business planning and decisions as well as execution of long term business strategies.

CG Code A.4.1 stipulates that the non-executive directors should be appointed for a specific term, subject to re-election. The Company has not fixed the term of appointment for non-executive director and independent non-executive directors. However, all non-executive director and independent non-executive directors are subject to retirement by rotation at least every three years and re-election at the annual general meeting of the Company pursuant to the Company's bye-laws. As such, the Board considers that sufficient measures have been taken to ensure the Company's corporate governance practices are no less exacting than those in the CG Code.

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules. All directors of the Company have confirmed, following specific enquiry by the Company, that they have complied with the required standards set out in the Model Code throughout the Period.

AUDIT COMMITTEE

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

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

PUBLICATION OF INTERIM RESULTS AND DESPATCH OF INTERIM REPORT

This results announcement is published on the websites of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk) and the Company (www.hkrh.hk). The interim report 2014 containing all the information required by the Listing Rules will be dispatched to the Company's shareholders and available on the above websites in due course.

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

Hong Kong, 25 February 2015

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