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 2016

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 2016 (the "**Period**").

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31 December 2016

	Notes	**Six months ended 31 December 2016** *HK$'000* *(Unaudited)*	Six months ended 31 December 2015 *HK$'000* *(Unaudited)*
Turnover	*3*	**518,117**	638,547
Cost of sales		**(329,606)**	(473,250)
Gross profit		**188,511**	165,297
Other income		**5,392**	16,264
Selling expenses		**(152,595)**	(162,913)
General and administrative expenses		**(55,905)**	(48,879)
Other operating expenses		**(10,924)**	(13,936)

	Notes	**Six months ended 31 December 2016** *HK$'000* *(Unaudited)*	Six months ended 31 December 2015 *HK$'000* *(Unaudited)*
Loss from operations		**(25,521)**	(44,167)
Change in fair value of derivatives embedded in convertible bonds and share option		**2,540**	29,021
Finance costs	*4*	**(21,538)**	(21,349)
Impairment loss on investment in a film recognised	*10*	**(10,000)**	—
Impairment loss on investment in an associate recognised		**(3,000)**	—
Share of result of an associate		**(965)**	—
Loss before taxation	*5*	**(58,484)**	(36,495)
Taxation	*6*	**(7,331)**	(1,728)
Loss for the period		**(65,815)**	(38,223)
Other comprehensive (expense) income:			
Item that will not be reclassified to profit or loss:			
Exchange difference arising on translation		**(29,649)**	(54,593)
Item that may be reclassified subsequently to profit and loss:			
Fair value gain on available-for-sale investment		**5,880**	—
		(23,769)	(54,593)
Total comprehensive expense for the period		**(89,584)**	(92,816)
Loss for the period attributable to:			
Owners of the Company		**(44,509)**	(7,337)
Non-controlling interests		**(21,306)**	(30,886)
		(65,815)	(38,223)
Total comprehensive expense for the period attributable to:			
Owners of the Company		**(59,380)**	(42,811)
Non-controlling interests		**(30,204)**	(50,005)
		(89,584)	(92,816)
Loss per ordinary share	*8*		
Basic		**(HK$0.013)**	(HK$0.002)
Diluted		**(HK$0.013)**	(HK$0.008)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

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

	Notes	31 December 2016 HK$'000 (Unaudited)	30 June 2016 HK$'000 (Audited)
Non-current liabilities			
Convertible bonds	*14*	**80,188**	74,359
Derivative financial instruments	*14*	**3,396**	5,936
Bank and other borrowings		**23,000**	23,000
Loans from non-controlling shareholders of subsidiaries	*13*	**103,000**	100,000
Deferred tax liabilities		**42,016**	42,016
		251,600	245,311
NET ASSETS		**315,536**	405,120
CAPITAL AND RESERVES			
Share capital	*15*	**35,224**	35,224
Reserves		**215,356**	277,824
Equity attributable to owners of the Company		**250,580**	313,048
Non-controlling interests		**64,956**	92,072
TOTAL EQUITY		**315,536**	405,120

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 31 December 2016

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

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

3. TURNOVER AND SEGMENT INFORMATION

(a) Turnover

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

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

(b) Segment information

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

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

a. Retail and franchising operations for selling gold and jewellery products in Mainland China; and

b. Retail operations for selling gold and jewellery products in Hong Kong and Macau.

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

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

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

For the six months ended 31 December 2015 (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	402,186	235,653	637,839	708	638,547
RESULT					
Segment results	16,905	(25,217)	(8,312)	(8,775)	(17,087)
Other income					16,264
Unallocated staff related expenses					(15,683)
Other unallocated corporate expenses					(10,919)
Advertising, promotion and business development expenses					(15,365)
Change in fair value of derivatives embedded in convertible bonds and share option					29,021
Impairment loss on intangible assets recognised					(1,377)
Finance costs					(21,349)
Loss before taxation					(36,495)
Taxation					(1,728)
Loss for the period					(38,223)

Segment profit (loss) represents the profit (loss) of each segment without allocation of other income, advertising, promotion and business development expenses, corporate staff and directors' salaries, change in fair value of derivatives embedded in convertible bonds and share option, impairment loss on investment in a film recognised, impairment loss on investment in an associate recognised, impairment loss on intangible assets recognised, finance costs, share of result of an associate and taxation. This is the measure reported to the chief operating decision makers for the purposes of resource allocation and performance assessment.

Note: Others represent other operating segments that are not reportable, which include online marketing, e-commerce, entertainment business including film investments, management and production of concerts and concerts investments, entertainment events and television programmes and content production.

4. FINANCE COSTS

	Six months ended 31 December 2016 *HK$'000* *(Unaudited)*	Six months ended 31 December 2015 *HK$'000* *(Unaudited)*
Interests on:		
Bank and other borrowings	**10,599**	8,933
Gold loans	**3,067**	5,638
Obligations under finance leases	**—**	3
Loan from a non-controlling shareholder of a subsidiary	**202**	208
Effective interest on convertible bonds (note 14)	**7,660**	6,567
Other finance costs	**10**	—
	21,538	21,349

5. LOSS BEFORE TAXATION

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

6. TAXATION

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

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

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

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

7. DIVIDENDS

The Board has resolved not to recommend an interim dividend in respect of the six months ended 31 December 2016 and 31 December 2015 to the holders of ordinary shares of the Company.

8. LOSS PER ORDINARY SHARE

	Six months ended 31 December 2016	Six months ended 31 December 2015
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Loss:		
Loss for the period attributable to owners of the Company for the purpose of basic loss per ordinary share	**(44,509)**	(7,337)
Effect of dilutive potential ordinary share:		
- Interest on CB 2019 (as defined in note 14)	**—**	3,117
- Change in fair value in derivatives embedded in CB 2019	**—**	(24,577)
Loss for the period attributable to owners of the Company for the purpose of diluted loss per ordinary share	**(44,509)**	(28,797)
	'000	*'000*
	(Unaudited)	*(Unaudited)*
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic loss per ordinary share	**3,522,395**	3,273,994
Effect of dilutive potential ordinary shares:		
- CB 2019	**—**	317,111
Weighted average number of ordinary shares for the purpose of diluted loss per ordinary share (note)	**3,522,395**	3,591,105

Note:

The computation of diluted loss per ordinary share did not assume the exercise of share options and bonus warrants because their exercise price is higher than the average share price, and the conversion of CB 2019 and CGS CB 2018 (as defined in note 14) (six months ended 31 December 2015: CGS CB 2018) since their conversion would result in a decrease in loss per ordinary share.

9. TRADE AND OTHER RECEIVABLES AND DEPOSITS PAID

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

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

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

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

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

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

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

The allowance of doubtful debts of HK$14,715,000 (30 June 2016: HK$14,877,000) mainly relate to customers which are under liquidation or in severe financial difficulties. It was assessed that the amounts are unlikely to be recovered. The Group does not hold any collateral over these balances.

10. INVESTMENTS

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

Notes:

(a) The amount represents equity investment in a private limited liability company incorporated in Australia that is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates was so significant that the directors of the Company are of the opinion that its fair value could not be measured reliably. The investee company is principally engaged in the research and development of a new liquid fuel.

(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.

(c) Based on the agreement entered into between a wholly owned subsidiary of the Company and an independent third party, the Group invested in a film with total investment amounting to RMB15,500,000 (equivalent to HK$19,340,000) and is entitled to a return of certain percentage of the profit to be derived from the release of the film worldwide in any media and in any format. The film is released in the PRC and Hong Kong in August 2016.

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

11. TRADE AND OTHER PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

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

Notes:

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

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

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

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

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

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

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

12. GOLD LOANS

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

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

The gain arising from change in fair value of gold loans of HK$8,700,000 (six months ended 31 December 2015: HK$11,581,000) has been recognised in profit or loss for the six months ended 31 December 2016. Fair values of the gold loans have been determined by reference to the quoted bid prices of gold on the Shanghai Gold Exchange at the end of reporting period.

13. LOANS FROM NON-CONTROLLING SHAREHOLDERS OF SUBSIDIARIES

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

14. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS

(a) Convertible bonds

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

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

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

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

(b) Derivative financial instruments

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

(i) Derivatives embedded in convertible bonds

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

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

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

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

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

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

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

15. SHARE CAPITAL

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

16. CAPITAL COMMITMENTS

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

17. PLEDGE OF ASSETS

As at 31 December 2016, the Group's bank deposits with carrying amounts of HK$467,386,000 (30 June 2016: HK$347,749,000) were pledged to banks as securities to obtain the banking facilities granted to subsidiaries of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Group is principally engaged in (1) retailing and franchising operations for selling gold and jewellery products in Hong Kong, Macau and other regions ("**Mainland China**") in the People's Republic of China (the "**PRC**"), (2) entertainment business, including film investment, management and production of concerts and concert investments, entertainment events, television programmes and content production, and (3) investment holdings.

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

FINANCIAL REVIEW

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

During the Period, the turnover derived from the franchise operation was HK$32 million (Last Period: HK$40 million), which is a result of the sales of goods to franchisees of HK$1 million (Last Period: HK$4 million) and receipt of license fees of HK$31 million (Last Period: HK$36 million). The license fees received are directly reflected in the gross profit. Through working closely with our franchisees to improve their profitability, we expect improvements in the Group's financial results.

The turnover has decreased by 19% while the gross profit has increased by 14%, respectively, for the Period to HK$518 million and HK$189 million, respectively.

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

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

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

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

INTERIM DIVIDEND

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

BUSINESS REVIEW

Retail Operation

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

As at 31 December 2016, the Group has 7 points-of-sale in Hong Kong, 2 points-of-sale in Macau and 349 points-of-sale in Mainland China under the brandname “3D-GOLD”. Of the points-of-sale in Mainland China, 80 are self-operated points-of-sale and 269 are franchise points-of-sale. During the Period, 18 new shops and counters have opened in Mainland China and 24 loss-making stores were closed.

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

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

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

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

Products and Design

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

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

— “Starry Shimmer” Collection;

— “Precious Dear” Collection;

— “Peter Rabbit” K Gold & Diamond Collection;

— “Golden Allure” Collection;

— “Pure Gold Rooster” Collection;

— “K Love” Collection;

— “Love Lane” Collection; and

— “Wedding Collection”.

Marketing and Promotion

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

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

Awards and Achievements

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

Entertainment Business

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

— 盧國沾歌詞背後演唱會;

— Paula Tsui in Concert 2016;

— “#TWINS #LOL# WORLD TOUR #SHENZHEN” Concert;

— Vote for Sam Hui 2016;

— Tsai Chin In Concert 2016;

— Jacky Cheung “A Classic Tour” in Hong Kong;

— 2016-2017 Park BoGum Asia Tour Fan Meeting in Hong Kong;

— The Invincible Jay Chou Concert Tour 2017 in Hong Kong; and

— Ronald Cheng PLAY IT AGAIN World Tour in Hong Kong.

E-Commerce

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

Clean Energy

The Group continues to invest in the research, development and commercialisation of a new liquid fuel made from methanol and other oxygenated species for use in large industrial compression ignition engines. The fuel is targeted initially for use in electricity generators and heavy industrial equipment and later for mobile applications such as heavy mining trucks, trains and ships. The use of the fuel and the treatment of the engine exhaust are intended to result in exhausts which have concentrations of specific pollutants (such as sulphur dioxide, nitrogen oxides and particulate matter), that are lower than those of diesel, without the need for capital intensive exhaust treatments.

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

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

OUTLOOK

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

The strategic direction taken by the management is to restore the long term sustainable growth and profitability of the Group. The market volatilities may result in, however, uncertainty on our short-term performance.

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

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

OTHERS

Liquidity, Financial Resources and Capital Structure

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

Capital Commitments

Capital commitments of the Group as at 31 December 2016 are set out in note 16 to the condensed consolidated financial statements.

Pledge of Assets

Pledge of assets of the Group as at 31 December 2016 is set out in note 17 to the condensed consolidated financial statements.

Financial Risk and Exposure

Except for the financial derivatives set out on the condensed consolidated statement of financial position and in notes 12 and 14, the Group did not have any outstanding material foreign exchange contracts, interest or currency swaps, or other financial derivatives as at 31 December 2016.

Employees and Remuneration Policy

As at 31 December 2016, the Group had 1,472 employees (30 June 2016: 1,495). The Group's remuneration policy is periodically reviewed by the Remuneration Committee and the Board. Remuneration is determined with reference to market conditions, company performance, and individual qualifications and performance.

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 Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

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

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

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

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 announcement, the Audit Committee comprises three independent non-executive directors, namely, Mr. Fan Chun Wah, Andrew, Mr. Fan, Anthony Ren Da and Mr. Wong Kam Wing.

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 2016 containing all the information required by the Listing Rules will be dispatched to the Company's shareholders and made available on the above websites in due course.

By order of the Board of
Hong Kong Resources Holdings Company Limited
Mrs. Wong Chew Li Chin
Chairman

Hong Kong, 24 February 2017

As at the date of this announcement, the Board comprises Mrs. Wong Chew Li Chin and Ms. Wong Wing Yan, Ella as executive directors, Mr. Lam Kwok Hing, Wilfred, J.P. and Mr. Cheung Pak To, Patrick, BBS as non-executive directors and Mr. Fan, Anthony Ren Da, Mr. Wong Kam Wing and Mr. Fan Chun Wah, Andrew, J.P. as independent non-executive directors.