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 2018

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 2018 (the "**Period**").

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31 December 2018

		Six months ended 31 December	
	Notes	**2018** *HK$'000* *(Unaudited)*	2017 *HK$'000* *(Unaudited)*
Revenue			
Goods and services	*3*	**775,630**	623,093
Interest		**5,695**	–
Total revenue		**781,325**	623,093
Cost of sales		**(586,334)**	(427,466)
Gross profit		**194,991**	195,627
Other income		**4,200**	4,972
Selling expenses		**(180,405)**	(146,690)
General and administrative expenses		**(47,562)**	(55,212)
Other gains and losses		**(10,825)**	2,616
Change in fair value of derivatives embedded in convertible bonds		**385**	3,638
Impairment loss on available-for-sale investments recognised	*10(a) & (b)*	**–**	(3,460)
Impairment loss on trade receivables recognised		**(1,300)**	–
Finance costs	*4*	**(37,093)**	(23,159)

	Notes	Six months ended 31 December 2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
Loss before taxation	*5*	**(77,609)**	(21,668)
Taxation	*6*	**(1,891)**	(4,999)
Loss for the period		**(79,500)**	(26,667)
Other comprehensive (expense) income:			
Item that will not be reclassified to profit or loss:			
Exchange difference arising on translation		**(4,431)**	6,826
Items that may be reclassified subsequently to profit and loss:			
Exchange difference arising on translation of foreign operations		**(15,674)**	8,619
Fair value loss of equity instruments at fair value through other comprehensive income ("FVTOCI")		**(2,726)**	–
Fair value loss on an available-for-sale investment		**–**	(840)
Investment revaluation reserve reclassified to profit or loss upon impairment of an available-for-sale investment		**–**	840
		(18,400)	8,619
Other comprehensive (expense) income for the period		**(22,831)**	15,445
Total comprehensive expense for the period		**(102,331)**	(11,222)
Loss for the period attributable to:			
Owners of the Company		**(48,271)**	(22,769)
Non-controlling interests		**(31,229)**	(3,898)
		(79,500)	(26,667)
Total comprehensive (expense) income for the period attributable to:			
Owners of the Company		**(62,236)**	(12,547)
Non-controlling interests		**(40,095)**	1,325
		(102,331)	(11,222)
			(Restated)
Loss per ordinary share	*8*		
Basic and diluted		**(HK$0.046)**	(HK$0.026)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	31 December 2018 HK$'000 (Unaudited)	30 June 2018 HK$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current Assets			
Property, plant and equipment		**56,285**	52,922
Deposits paid	9	**13,349**	10,306
Intangible assets		**169,144**	169,144
Interest in a joint venture		**–**	–
Available-for-sale investments	10	**–**	15,118
Equity instruments at FVTOCI	10	**4,734**	–
Deferred tax assets		**17,079**	17,112
		260,591	264,602
Current Assets			
Inventories		**952,405**	979,354
Trade and other receivables and deposits paid	9	**214,516**	213,712
Loan receivables		**71,500**	14,000
Tax recoverable		**2,463**	1,739
Right to returned goods asset		**3,552**	–
Pledged bank deposits		**915,697**	742,299
Bank balances and cash		**60,441**	56,988
		2,220,574	2,008,092
Current Liabilities			
Trade and bills payables, other payables, accruals and deposits received	11	**270,131**	333,097
Contract liabilities		**24,524**	–
Refund liabilities		**6,150**	–
Bank and other borrowings		**1,846,265**	1,480,000
Amount due to a joint venture		**11**	11
Loans from a non-controlling shareholder of a subsidiary	12	**–**	43,190
Convertible bonds	13(a)	**53,607**	49,753
Derivative financial instruments	13(b)	**–**	385
Tax liabilities		**1,327**	4,103
		2,202,015	1,910,539

	Notes	31 December 2018 HK$'000 (Unaudited)	30 June 2018 HK$'000 (Audited)
Net Current Assets		**18,559**	97,553
Total Assets Less Current Liabilities		**279,150**	362,155
Non-current Liabilities			
Other payable		–	3,593
Bank and other borrowings		**20,000**	20,000
Loans from a non-controlling shareholder of a subsidiary	*12*	**100,000**	100,000
Deferred tax liabilities		**42,016**	42,016
		162,016	165,609
NET ASSETS		**117,134**	196,546
CAPITAL AND RESERVES			
Share capital	*14*	**42,268**	38,224
Reserves		**60,221**	101,527
Equity attributable to owners of the Company		**102,489**	139,751
Non-controlling interests		**14,645**	56,795
TOTAL EQUITY		**117,134**	196,546

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.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 31 December 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2018.

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

3. TURNOVER AND SEGMENT INFORMATION

(a) Turnover

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

	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		Wholesales and sub-contracting operations for gold and jewellery products in Mainland China		Others		Total	
	2018	2017	**2018**	2017	**2018**	2017	2018	2017	2018	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Retail sales of goods	**382,056**	373,461	**241,789**	210,526	**–**	–	**–**	–	**623,845**	583,987
Wholesales of goods	**–**	–	**–**	–	**113,056**	–	**–**	–	**113,056**	–
Franchise income *(Note a)*	**2,064**	3,589	**–**	–	**–**	–	**–**	–	**2,064**	3,589
Licence income *(Note a)*	**35,000**	35,517	**–**	–	**–**	–	**–**	–	**35,000**	35,517
Sub-contracting service fee income	**–**	–	**–**	–	**1,665**	–	**–**	–	**1,665**	–
Goods and services	**419,120**	412,567	**241,789**	210,526	**114,721**	–	**–**	–	**775,630**	623,093
Interest *(Note b)*	**–**	–	**–**	–	**–**	–	**5,695**	–	**5,695**	–
	419,120	412,567	**241,789**	210,526	**114,721**	–	**5,695**	–	**781,325**	623,093

(a) Turnover – continued

Disaggregation of revenue for the six months ended 31 December 2018 (unaudited) :

	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	Wholesales and sub-contracting operations for gold and jewellery products in Mainland China	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Geographical markets					
– Mainland China	419,120	–	114,721	–	533,841
– Hong Kong and Macau	–	241,789	–	5,695	247,484
	419,120	241,789	114,721	5,695	781,325
Timing of revenue recognition					
– A point in time	382,056	241,789	114,721	–	738,566
– Over time *(Note a)*	37,064	–	–	–	37,064
	419,120	241,789	114,721	–	775,630
Interest *(Note b)*	–	–	–	5,695	5,695
	419,120	241,789	114,721	5,695	781,325

Notes:

a) Franchise income and license income were recognised over time upon application of HKFRS 15.

b) Interest represented the interest income from money lending business, which is accounted for under HKFRS 9.

(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;

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

c. Wholesales and sub-contracting operations for gold and jewellery products in Mainland China.

The Group commenced the business of wholesales and sub-contracting operations since January 2018. Accordingly, it is considered as a new operating and reportable segment.

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 2018 (unaudited)

	Reportable segments					
	Retail and franchising operations for selling gold and jewellery products in Mainland China *HK$'000*	**Retail operations for selling gold and jewellery products in Hong Kong and Macau** *HK$'000*	**Wholesales and sub-contracting operations for gold and jewellery products in Mainland China** *HK$'000*	**Total** *HK$'000*	**Others** *HK$'000* *(Note)*	**Consolidated** *HK$'000*
REVENUE						
External sales	419,120	241,789	114,721	775,630	5,695	781,325
RESULT						
Segment results	13,532	(5,893)	(1,491)	6,148	5,390	11,538
Other income						4,200
Unallocated staff related expenses						(16,259)
Other unallocated corporate expenses						(10,364)
Advertising, promotion and business development expenses						(19,607)
Change in fair value of derivatives embedded in convertible bonds						385
Exchange loss, net						(10,409)
Finance costs						(37,093)
Loss before taxation						(77,609)
Taxation						(1,891)
Loss for the period						(79,500)

(b) Segment information-continued

For the six months ended 31 December 2017 (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	Consolidated
	HK$'000	*HK$'000*	*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, net			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)

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, exchange gain (loss), impairment loss on available-for-sale investments recognised, finance costs 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 money lending business, for the segment information for the six months ended 31 December 2018.

4. FINANCE COSTS

	Six months ended 31 December	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Interests on:		
Bank and other borrowings	**32,144**	17,770
Gold loans	**–**	867
Loan from a non-controlling shareholder of a subsidiary	**164**	435
Effective interest on convertible bonds *(note 13(a))*	**4,785**	4,087
	37,093	23,159

5. LOSS BEFORE TAXATION

	Six months ended 31 December	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Loss before taxation has been arrived at after charging (crediting):		
Change in fair value of gold loans (included in "Cost of sales")	**–**	(539)
Cost of inventories recognised as an expense	**585,538**	428,005
Depreciation of property, plant and equipment	**11,261**	9,323
Exchange loss (gain), net	**10,409**	(3,307)
Loss on disposal of property, plant and equipment	**416**	690
Bank interest income (included in "Other income")	**(2,021)**	(2,268)
Operating lease rentals		
– contingent rental	**35,111**	36,079
– minimum lease payments	**31,735**	26,356

6. TAXATION

	Six months ended 31 December	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Current tax:		
PRC Enterprise Income Tax	**1,311**	4,451
Deferred taxation	**580**	548
	1,891	4,999

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day.

Under the two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying corporations will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of corporations not qualifying for the two tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The two-tiered profits tax rates regime are applied to the subsidiaries subjected to Hong Kong Profit Tax for the six months ended 31 December 2018. 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 in both periods, as the Group has no assessable profits in Macau for the six months ended 31 December 2018 and the assessable profits were fully absorbed by the tax losses carried forward from prior periods for the six months ended 31 December 2017.

7. DIVIDENDS

The Board has resolved not to recommend an interim dividend in respect of the six months ended 31 December 2018 and 31 December 2017 to the holders of ordinary shares of the Company.

8. LOSS PER ORDINARY SHARE

	Six months ended 31 December	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Loss:		
Loss for the period attributable to owners of the Company for the purpose of basic and diluted loss per ordinary share	**(48,271)**	(22,769)
	'000	*'000*
	(Unaudited)	*(Unaudited)*
		(restated)
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per ordinary share	**1,044,302**	880,599

Note: The weighted average number of ordinary shares for the purposes of calculating basis and diluted loss per share for the six months ended 31 December 2018 has been adjusted to reflect the Share Consolidation (as defined in note 14) occurred during the current interim period. The corresponding weighted average number of ordinary shares for the six months ended 31 December 2017 has been retrospectively adjusted to reflect the Share Consolidation.

The computation of diluted loss per ordinary share did not assume the exercise of share options (for the six months ended 31 December 2017: 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 13(a)) since their conversion would result in a decrease in loss per ordinary share.

9. TRADE AND OTHER RECEIVABLES AND DEPOSITS PAID

	31 December 2018	30 June 2018
	HK$'000	*HK$'000*
	(Unaudited)	*(audited)*
Deposits paid under non-current assets represent:		
Rental and utility deposits	**13,349**	10,306
Trade and other receivables and deposits paid under current assets comprise:		
Trade receivables	**117,758**	106,705
Less: allowance for doubtful debts	**(3,335)**	–
	114,423	106,705
Rental deposits	**4,672**	6,600
Value added tax receivables	**73,737**	84,095
Other receivables and deposits paid	**21,684**	16,312
	214,516	213,712

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 rental deposits, and other receivables and deposits paid as at 31 December 2018 are amounts related to a fellow subsidiary of a non-controlling shareholder of a subsidiary amounting to HK$1,442,000 (30 June 2018: HK$1,008,000).

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 2018	30 June 2018
	HK$'000	*HK$'000*
	(Unaudited)	*(audited)*
0-30 days	**80,531**	76,032
31-60 days	**14,677**	9,902
61-90 days	**6,426**	12,854
Over 90 days	**12,789**	7,917
	114,423	106,705

The Group applies the HKFRS 9 simplified approach to measure lifetime ECL for trade receivables. Trade receivables have been assessed individually based on the Group's historical credit loss experience and the historical observed default rates adjusted by forward-looking estimates and allowance of HK$3,335,000 has been recognised as at 31 December 2018. The Group does not hold any collateral over these balances.

The Group rebuts the presumption of default under ECL for trade receivables over 90 days past due based on the good repayment records of those customers and continuous business relationship with the Group.

Allowance for doubtful debts

The movement in the allowance for allowance for doubtful debts in respect of trade receivables during the current interim period was as follows:

	HK$'000
As at 1 July 2018	(2,035)
Net remeasurement of allowance for doubtful debts	(1,300)
As at 31 December 2018	(3,335)

10. EQUITY INSTRUMENTS AT FVTOCI/AVAILABLE-FOR-SALE INVESTMENTS

	Notes	31 December 2018 HK$'000 (Unaudited)	30 June 2018 HK$'000 (audited)
Quoted equity investment			
– Equity instruments at FVTOCI	*(a)*	**4,734**	–
– Available-for-sale investments	*(a)*	**–**	15,118
Unquoted equity investments			
– Equity instruments at FVTOCI	*(b)*	**–**	–
– Available-for-sale investments, at cost	*(b)*	**–**	–
		4,734	15,118

Notes:

(a) The quoted equity 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 was provided under HKAS 39 during the six months ended 31 December 2017 as the management considered that the decrease in fair value is significant and prolonged.

(b) The unquoted equity investments represented equity investments in private limited companies stated at their fair values, determined with reference to underlying assets and take into consideration of discount for lack of marketability and minority discount. Impairment of HK$2,620,000 was provided under HKAS 39 during the six months ended 31 December 2017.

11. TRADE AND BILLS PAYABLES, OTHER PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

	31 December 2018 HK$'000 (Unaudited)	30 June 2018 HK$'000 (Audited)
Trade payables	**71,937**	107,441
Bills payables	**17,151**	22,964
	89,088	130,405
Receipts in advance from customers *(Note (a))*	**–**	25,783
Franchisee guarantee deposits *(Note (b))*	**49,710**	50,701
Value added tax payables	**34,684**	36,884
Salary and bonus payables	**61,864**	58,470
Payable in respect of the acquisition of a property	**3,593**	3,593
Other payables, accruals and other deposits	**31,192**	30,854
	270,131	336,690
Less: Amounts due within one year and shown under current liabilities	**(270,131)**	(333,097)
Amounts shown under non-current liabilities	**–**	3,593

Notes:

(a) Amount represents receipts in advance from customers for sales of inventories. Such amounts are reclassified to "Contract liabilities" upon application of HKFRS 15 in the current interim period.

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

Included in trade payables as at 31 December 2018 are trade payables to certain fellow subsidiaries of a non-controlling shareholder of a subsidiary amounting to HK$3,964,000 (30 June 2018: HK$3,519,000).

Included in franchisee guarantee deposits and other payables, accruals and other deposits as at 31 December 2018 are deposits received from and other payables to certain fellow subsidiaries of a non-controlling shareholder of a subsidiary amounting to HK$766,000 (30 June 2018: HK$1,586,000) and HK$4,303,000 (30 June 2018: HK$3,017,000) 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$2,748,000 (30 June 2018: HK$2,680,000).

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

	31 December 2018	30 June 2018
	HK$'000	*HK$'000*
	(Unaudited)	*(audited)*
0-30 days	**57,236**	72,216
31-60 days	**25,827**	49,971
61-90 days	**2,029**	1,219
Over 90 days	**3,996**	6,999
	89,088	130,405

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

As at 31 December 2018, the loan from a non-controlling shareholder of a subsidiary of HK$100,000,000 (30 June 2018: HK$100,000,000) is unsecured, interest-free and mutually agreed by the Group and the lender not to be repaid within one year after the end of the reporting period. Another loans from a non-controlling shareholder of a subsidiary of HK$20,000,000 and HK$23,190,000 which were unsecured, interest bearing at 2% per annum and repayable in August 2018 and September 2018, respectively, were repaid in current period.

13. 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 2018 (audited)	49,753
Coupon interest accrued at 1 July 2018 and included in other payables	824
Interest charged during the period	4,785
Coupon interest accrued at 31 December 2018 and included in other payables	(1,755)
At 31 December 2018 (unaudited)	53,607

The effective interest rate of CB 2019 was 19.47% per annum.

(b) Derivative financial instruments

Derivatives embedded in CB 2019

The fair values of the embedded derivatives in CB 2019 at 30 June 2018 and 31 December 2018 are based on valuation carried out on those dates by an independent professional valuer. The change in fair value of HK$385,000 (for the six months ended 31 December 2017: HK$3,638,000) has been credited to profit or loss for the six months ended 31 December 2018.

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 2018	At 30 June 2018
Share price	**HK$0.18**	HK$0.068
Exercise price *(Note)*	**HK$0.712**	HK$0.178
Expected dividend yield	**0.00%**	0.00%
Volatility	**46.52%**	55.23%
Risk free rate	**1.80%**	1.68%

Note: Upon completion of the Share Consolidation (as defined in note 14), the exercise price has adjusted from HK$0.178 to HK$0.712 per ordinary share, and the number of shares to be issued upon conversion has been adjusted from 320,674,157 to 80,168,539.

14. SHARE CAPITAL

	Notes	Number of shares '000	Amount HK$'000
Authorised:			
Ordinary shares of HK$0.01 each at 1 July 2017		6,000,000	60,000
Increase	*(a)*	14,000,000	140,000
Ordinary shares of HK$0.01 each at 31 December 2017		20,000,000	200,000
Ordinary shares of HK$0.01 each at 1 July 2018		20,000,000	200,000
Adjustment from Share Consolidation	*(b)*	(15,000,000)	–
Ordinary shares of HK$0.04 each at 31 December 2018		5,000,000	200,000
Preference shares of HK$0.01 each at I July 2017, 31 December 2017 and 1 July 2018		3,000,000	30,000
Adjustments from Share Consolidation	*(b)*	(2,250,000)	–
Preference shares of HK$0.04 each at 31 December 2018		750,000	30,000
Total:			
At 1 July 2017		9,000,000	90,000
At 31 December 2017 and 1 July 2018		23,000,000	230,000
At 31 December 2018		5,750,000	230,000
Ordinary shares issued and fully paid:			
Ordinary shares of HK$0.01 each at 1 July 2017		3,522,394	35,224
Exercise of warrants	*(c)*	3	–
Ordinary shares of HK$0.04 each at 31 December 2017		3,522,397	35,224
Ordinary shares of HK$0.01 each at 1 July 2018		3,822,423	38,224
Issue of shares	*(d) (i) & (ii)*	263,110	4,044
Adjustments from Share Consolidation	*(b)*	(3,028,818)	–
Ordinary shares of HK$0.04 each at 31 December 2018		1,056,715	42,268

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) Pursuant to the resolution passed on 17 July 2018, the consolidation of every four issued and unissued ordinary shares of par value of HK$0.01 each in the share capital of the Company into one consolidated ordinary share of par value of HK$0.04 each in the share capital of the Company (the "**Share Consolidation**") became effective on 18 July 2018. Upon the completion of the Share Consolidation, the conversion price and the number of share issued upon conversion of the CB 2019 (as disclosed in note 13) and the exercise price and the number of underlying shares comprised in the outstanding options of the Company have been adjusted accordingly.

(c) During the six months ended 31 December 2017, the Company issued 3,000 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.

(d) (i) On 18 July 2018, the Company issued 216,000,000 ordinary shares by way of placing at a price of HK$0.0728 per share, which has been consolidated into 54,000,000 shares upon the completion of the Share Consolidation.

(ii) On 20 July 2018, the Company entered into a subscription agreement with an independent third party, pursuant to which the independent third party agreed to subscribe 47,110,000 shares of the Company at the subscription price of HK$0.25 per share. The subscription was completed on 30 July 2018.

15. CAPITAL COMMITMENTS

	31 December 2018	30 June 2018
	HK$'000	*HK$'000*
	(Unaudited)	*(audited)*
Capital expenditure in respect of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	**538**	560

16. PLEDGE OF ASSETS

As at 31 December 2018, the Group's bank deposits with carrying amounts of HK$915,697,000 (30 June 2018: HK$742,299,000) were pledged to banks as securities to obtain the banking facilities granted to the Group.

OVERVIEW

The Group is principally engaged in trademark licensing and retailing for gold and jewellery products in Hong Kong, Macau and Mainland China and wholesaling and subcontracting of gold and jewellery products in Mainland China.

During the Period under review, the escalation of trade tensions between the United States and Mainland China appeared to have hurt market sentiment. In Hong Kong, in the shadow of volatilities in the financial markets, weaker asset prices and a more cautious consumption sentiment appeared as results. In Mainland China, domestic engines that used to drive expansion showed signs of weakening momentum. The economy was facing downward pressure. Therefore, the overall same store growth of the Group's retail business recorded a decline of 4% for the Period. As a part of the Group's strategy, the Group has expanded its retail business by a net addition of 11 shops and counters in Hong Kong and Mainland China.

FINANCIAL REVIEW

The Group recorded a total turnover of approximately HK$781 million for the Period, representing an increase of 25% as compared to the turnover of approximately HK$623 million same period last year ("Last Period"). The launch of the wholesaling and sub-contracting businesses in Mainland China contributed 73% of overall increase in turnover. The loss for the Period attributable to the owners was approximately HK$48 million compared to approximately HK$23 million Last Period, representing an increase of 109%. This was mainly attributable to devaluation of Renminbi, decrease in international gold price and increase in finance costs.

Retailing of gold and jewellery products accounted for 80% (2017: 94%) of total turnover. The Group recorded retail revenue of approximately HK$624 million for the Period, representing a 7% increase from approximately HK$584 million Last Period. Mainland China continued to be the Group's major market, contributing 61% (2017: 64%) of retail sales for the Period. The retail revenue from Mainland China rose by 2% to approximately HK$382 million for the Period from approximately HK$373 million Last Period. The Group recorded retail revenue from Hong Kong and Macau of approximately HK$242 million for the Period, representing a 15% increase from HK$211 million Last Period. The Group recorded a decline in overall same-store growth of 4% (2017: a growth of 18%), of which same-store growth in Mainland China decline by 6% (2017: a growth of 17%) and same store growth in Hong Kong and Macau decline by 1% (2017: a growth of 8%). The wholesaling and sub-contracting of gold and jewellery products in Mainland China are new businesses for the Group, and accounted for 15% (2017: 0%) of total turnover. The Group recorded revenue from wholesaling and sub-contracting of gold and jewellery in Mainland China of approximately HK$115 million (2017: Nil).

In line with the increase in turnover, the Group's selling and distribution expenses increased this Period to HK$180 million (2017: HK$147 million), whereas the percentage to total turnover decreased to 23% (2017: 24%) this Period. Advertising and promotional expenses amounted to HK$18 million (2017: HK$10 million), equivalent to 2.3% (2017: 1.6%) of total revenue. Rental expenses amounted to HK$63 million (2017: HK$60 million), representing 10% (2017: 10%) of total retail revenue. The rental was generally in line with the market trend, yet the percentage to turnover remained at a relatively low level.

The Group has successfully implemented various cost control measures. General and administrative expenses have decreased by HK$7 million to HK$48 million (2017: HK$55 million).

The Group's other gains and losses have decreased by HK$13 million from a gain of approximately HK$3 million to a loss of approximately HK$11 million for the Period. Included in other gains and losses are exchange loss of HK$10 million for the Period.

INTERIM DIVIDENDS

The Board has resolved not to recommend an interim dividend in respect of the six months ended 31 December 2018 to the holders of ordinary shares of the Company.

BUSINESS REVIEW

Retail business

Overall revenue from the retail business reached HK$242 million (2017: HK$211 million) for Hong Kong and Macau and HK$382 million (2017: HK$373 million) for Mainland China. The increase was mainly due to the increment of 1 shop in Hong Kong and 10 shops and counters in Mainland China.

As at 31 December 2018, the Group had 10 points-of-sale in Hong Kong, 2 points-of-sale in Macau and 384 points-of-sale in Mainland China under the brand name "3D-GOLD". Of the points-of-sale in Mainland China, 88 are self-operated points-of-sale and 296 are licensee points-of-sale. During the Period, 46 new shops and counters were opened in Mainland China and 36 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.

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:

- "Spellbound" Collection
- "Starry Shimmer" Collection
- Pure Gold Chinese Zodiac Collection
- "K • Love" Collection
- "Love Lane" Collection
- Pure Gold Wedding Collection
- "Precious Dear" Collection
- "Golden Allure" 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.

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

– Sponsored "Kelly x MOOV Live Music Stage" Concert in Hong Kong

– Organized a " 2018 Autumn Brand Licensee Business Seminar" in Shenzhen of PRC;

– Organized a "New Image Shop Opening Celebration" in Wuhan of PRC;

– Organized a "Kick-off Ceremony of "Starry Shimmer" Roadshow" in Guangzhou of PRC

Awards and Achievements

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

– "Q-Mark Elite Brand Award 2018 (Jewellery & Watch)"

– "TVB Weekly Brand Awards 2018"

Wholesale and sub-contracting businesses

The Group has launched new wholesaling and sub-contracting businesses for gold and jewellery products in Mainland China. The Group will continue to explore more opportunities to work with business partners in Mainland China to facilitate the growth of its wholesale business network.

OUTLOOK

The increased visitor arrivals from Mainland China pointed to a better consumption sentiment. However, under the influence of US-China trade war and geopolitics, uncertainties are still around. The Group remains prudently optimistic about the prospects of its business growth in the coming year. Looking ahead, the Group is positive about the business outlook in the medium-to-long run, despite short-term market volatility. Mainland China continues to be the major market and 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 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 has also been exploring new business opportunities to diversify revenue base. Ultimately, it aims to achieve its goals, which will result in growth and value for our investors and other stakeholders.

USE OF PROCEEDS FROM PLACING AND SUBSCRIPTION OF NEW SHARES

The Company has received net proceeds of approximately HK$27 million in connection with the placing and subscription of new shares completed on 18 July 2018 and 30 July 2018 respectively. As of 31 December 2018, all net proceeds have been used by the Group. Set forth below is a summary of the utilization of the net proceeds:

	Amount of net proceeds intended to be allocated *HK$* *(approximately)*	**Actual utilized amount as of 31 December 2018** *HK$* *(approximately)*	**Unutilized amount as of 31 December 2018** *HK$* *(approximately)*
Intended use disclosed in the Company's Announcement dated 8 June 2018			
General working capital/Group's acquisition	15,200,000	15,200,000	–
Intended use disclosed in the Company's Announcement dated 20 July 2018			
General working capital	11,700,000	11,700,000	–
	26,900,000	26,900,000	–

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 2018, the Group had total cash and cash equivalents amounting to HK$976 million (30 June 2018: HK$799 million) whilst total net assets were HK$117 million (30 June 2018: HK$197 million). The Group's net gearing ratio as at 31 December 2018 was 892% (30 June 2018: 454%), being a ratio of total borrowing of HK$2,020 million (30 June 2018: HK$1,693 million) less pledged bank deposits and bank balances and cash of HK$976 million (30 June 2018: HK$799 million) to total equity of HK$117 million (30 June 2018: HK$197 million). After taking into account the gold inventories of HK$343 million (30 June 2018: HK$386 million), the Group's adjusted net gearing ratio as at 31 December 2018 was 599% (30 June 2018: 258%), being a ratio of total borrowing less pledged bank deposits, bank balances and cash and gold inventories to total equity. As at 31 December 2018, the Group has available unutilised revolving banking facilities of HK$346,000,000 (30 June 2018: nil).

Capital Commitments

Capital commitments of the Group as at 31 December 2018 are set out in note 15.

Pledged Assets and Contingent Liabilities

Pledged assets of the Group as at 31 December 2018 are set out in note 16. The Group did not have any material contingent liabilities as at 31 December 2018.

Financial Risk and Exposure

Except for the financial derivatives set out in notes 13, the Group did not have any outstanding material foreign exchange contracts, interest or currency swaps, or other financial derivatives as at 31 December 2018.

Employees and Remuneration Policy

As at 31 December 2018, the Group had 1,496 employees (30 June 2018: 1,456). 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.

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. Mr. Xu Zhigang was appointed as an executive Director and chief executive officer on 14 February 2018 and has been assuming the role of chairman of the Company. The Board is of the view that currently vesting the roles of chairman and chief executive in Mr. Xu Zhigang 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. The Group's unaudited interim financial statements for the period ended 31 December 2018 have been reviewed by the Audit Committee. As at the date of this announcement, 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.

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 2018 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
Mr. Xu Zhigang
Executive Director & Chief Executive Officer

Hong Kong, 28 February 2019

As at the date of this announcement, the Board comprises Mr. Lam Kwok Hing, Wilfred, J.P., Mr. Xu Zhigang (Chief Executive Officer), Mr. Zhao Jianguo and Ms. Dai Wei as executive Directors, and Dr. Loke Yu alias Loke Hoi Lam, Mr. Xu Xiaoping and Mr. Fan, Anthony Ren Da as independent non-executive Directors.