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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 2020

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 2020 (the “**Period**”) together with the comparative figures for the corresponding period in 2019. The interim results had not been reviewed or audited by the Company’s auditor, but had been reviewed by the audit committee of the Company.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31 December 2020

		Six months ended 31 December	
	Notes	2020 HK\$’000 (Unaudited)	2019 HK\$’000 (Unaudited)
Revenue			
Goods and services	3	389,467	517,164
Cost of sales		<u>(250,712)</u>	<u>(331,841)</u>
Gross profit		138,755	185,323
Other income		14,508	6,194
Selling expenses		(106,633)	(143,457)
General and administrative expenses		(36,103)	(46,280)
Other gains and losses		28,042	(6,342)
Change in fair value of derivatives embedded in convertible bonds		8,775	–
Reversal of impairment loss on trade and other receivables under expected credit loss model		–	4,244
Finance costs	4	<u>(23,984)</u>	<u>(43,147)</u>

		Six months ended	
		31 December	
	<i>Notes</i>	2020	2019
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Profit/(loss) before taxation	5	23,360	(43,465)
Income tax expense	6	(3,036)	(18,724)
Profit/(loss) for the period		20,324	(62,189)
Other comprehensive income/(expense):			
<i>Item that will not be reclassified to profit or loss:</i>			
Exchange difference arising on translation		(34,721)	575
Fair value loss of equity instruments at fair value through other comprehensive income (“FVTOCI”)		(204)	(1,555)
		(34,925)	(980)
<i>Items that will be reclassified subsequently to profit and loss:</i>			
Exchange difference arising on translation of foreign operations		52,111	(13,272)
Other comprehensive income/(expense) for the period		17,186	(14,252)
Total comprehensive income/(expense) for the period		37,510	(76,441)
Profit/(loss) for the period attributable to:			
Owners of the Company		9,862	(37,972)
Non-controlling interests		10,462	(24,217)
		20,324	(62,189)
Total comprehensive income/(expense) for the period attributable to:			
Owners of the Company		16,320	(46,623)
Non-controlling interests		21,190	(29,818)
		37,510	(76,441)
Earnings/(loss) per ordinary share			
Basic	8	HK\$0.006	(HK\$0.030)
Diluted	8	HK\$0.003	(HK\$0.030)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

		31 December 2020	30 June 2020
	<i>Notes</i>	HK\$'000 (Unaudited)	HK\$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		24,259	29,943
Right-of-use assets		14,600	24,561
Deposits paid		49	1,844
Intangible assets		169,144	169,144
Equity instruments at FVTOCI		1,803	2,007
Deferred tax assets		8,335	7,379
		<u>218,190</u>	<u>234,878</u>
Current assets			
Inventories		667,978	635,536
Right to returned goods asset		1,552	951
Trade and other receivables and deposits paid	9	116,516	109,298
Loan receivables		–	–
Income tax recoverable		5,296	4,490
Pledged bank deposits		764,771	767,778
Bank balances and cash		111,937	110,810
		<u>1,668,050</u>	<u>1,628,863</u>
Current liabilities			
Trade and other payables, accruals and deposits received	10	184,304	161,206
Bank and other borrowings		1,504,000	1,535,400
Contract liabilities		19,228	14,516
Refund liabilities		5,999	2,834
Lease liabilities		11,891	20,653
Loans from a non-controlling shareholder of a subsidiary		27,000	27,000
Derivative component of convertible bonds		2,539	11,314
Income tax liabilities		2,990	1,795
		<u>1,757,951</u>	<u>1,774,718</u>
Net current liabilities		<u>(89,901)</u>	<u>(145,855)</u>
Total assets less current liabilities		<u>128,289</u>	<u>89,023</u>

	31 December 2020 HK\$'000 (Unaudited)	30 June 2020 HK\$'000 (Audited)
Non-current liabilities		
Convertible bonds	62,677	59,134
Lease liabilities	3,142	4,068
Loans from a non-controlling shareholder of a subsidiary	100,000	100,000
Deferred tax liabilities	<u>44,406</u>	<u>45,267</u>
	<u>210,225</u>	<u>208,469</u>
Net liabilities	<u><u>(81,936)</u></u>	<u><u>(119,446)</u></u>
Capital and reserves		
Share capital	61,868	61,868
Reserves	<u>(97,343)</u>	<u>(113,663)</u>
Deficit attributable to owners of the Company	(35,475)	(51,795)
Non-controlling interests	<u>(46,461)</u>	<u>(67,651)</u>
TOTAL DEFICIT	<u><u>(81,936)</u></u>	<u><u>(119,446)</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2020

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.

The Group’s current liabilities exceeded its current assets by HK\$89,901,000 and its total liabilities exceeded its total assets by HK\$81,936,000 respectively, indicating the existence of a material uncertainty which may cast significant doubt on the Group’s ability to continue as a going concern. Therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business. The directors of the Company are of the opinion that the Group will have sufficient working capital to meet its financial obligations as and when they fall due for the next twelve months from 31 December 2020 after taking into consideration of the following:

- i) The Group has been taking stringent cost controls.
- ii) In February 2021, the Company received a letter of financial support from Mr. Li Ning, the chairman and an executive director and a substantial shareholder of the Company that Mr. Li Ning will provide adequate funds to enable the Group to meet in full its financial obligations as they fall due for at least 18 months from 31 December 2020.
- iii) Internal funds shall be generated from the Group’s operations and external financing will be available to the Group.

Accordingly, the directors of the Company are of the opinion that it is appropriate to prepare the condensed consolidated financial statements on a going concern basis. Should the use of the going concern basis in preparation of the unaudited condensed consolidated interim financial statements be inappropriate, adjustments would have to be made to reflect the situation that assets may need to be realized at the amounts other than which they are currently recorded in the unaudited condensed consolidated statement of financial position as at 31 December 2020. In addition, the Group may have to recognise further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively.

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 amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”) and application of certain policies which became relevant to the Group, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 31 December 2020 are the same as those presented in the Group’s annual financial statements for the year ended 30 June 2020.

New and amendments to HKFRSs that are mandatorily effective for the current period

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform
Amendments to HKAS 1 and HKAS 8	Definition of Material

The application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

a) Revenue

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

	Retail sales and franchising operations for selling gold and jewellery products in Mainland China		Retail sales 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	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Retail sales of goods	289,971	347,005	53,173	126,900	-	-	-	-	343,144	473,905
Franchising and licensing income	30,220	43,259	-	-	-	-	-	-	30,220	43,259
Trading of computer products	-	-	-	-	-	-	16,103	-	16,103	-
Goods and services	<u>320,191</u>	<u>390,264</u>	<u>53,173</u>	<u>126,900</u>	<u>-</u>	<u>-</u>	<u>16,103</u>	<u>-</u>	<u>389,467</u>	<u>517,164</u>

(i) Disaggregation of revenue for the six months ended 31 December 2020 and 2019 (unaudited):

	Retail sales and franchising operations for selling gold and jewellery products in Mainland China		Retail sales 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	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Geographical markets										
- Mainland China	320,191	390,264	-	-	-	-	16,103	-	336,294	390,264
- Hong Kong and Macau	-	-	53,173	126,900	-	-	-	-	53,173	126,900
	<u>320,191</u>	<u>390,264</u>	<u>53,173</u>	<u>126,900</u>	<u>-</u>	<u>-</u>	<u>16,103</u>	<u>-</u>	<u>389,467</u>	<u>517,164</u>
Timing of revenue recognition										
- A point in time	289,971	347,005	53,173	126,900	-	-	16,103	-	359,247	473,905
- Over time	30,220	43,259	-	-	-	-	-	-	30,220	43,259
	<u>320,191</u>	<u>390,264</u>	<u>53,173</u>	<u>126,900</u>	<u>-</u>	<u>-</u>	<u>16,103</u>	<u>-</u>	<u>389,467</u>	<u>517,164</u>

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:

- i) Retail sales and franchising operations for gold and jewellery products in Mainland China;
- ii) Retail sales operations for gold and jewellery products in Hong Kong and Macau; and
- iii) Wholesales and sub-contracting operations for gold and jewellery products in Mainland China.

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

The following is an analysis of the Group's revenue and results by operating segments.

Segment revenues and results

For the six months ended 31 December 2020 (unaudited)

	Reportable segments			Total HK\$'000	Others (Note) HK\$'000	Consolidated HK\$'000
	Retail sales and franchising operations for selling gold and jewellery products in Mainland China HK\$'000	Retail sales 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			
REVENUE						
External sales	320,191	53,173	-	373,364	16,103	389,467
RESULT						
Segment results	36,397	(10,364)	-	26,033	(347)	25,686
Unallocated other income						12,332
Unallocated corporate staff and directors' salaries						(16,447)
Other unallocated corporate expenses						(4,380)
Advertising, promotion and business development expenses						(9,517)
Change in fair value of derivatives embedded in convertible bonds						8,775
Exchange gain, net						30,105
Unallocated finance costs						(23,194)
Profit before taxation						23,360
Income tax expense						(3,036)
Profit for the period						20,324

Note: Others represent other operating segment that is not reportable, which includes money lending business and computer products trading business.

For the six months ended 31 December 2019 (unaudited)

	Reportable segments			Total HK\$'000	Others (Note) HK\$'000	Consolidated HK\$'000
	Retail sales and franchising operations for selling gold and jewellery products in Mainland China HK\$'000	Retail sales 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			
REVENUE						
External sales	<u>390,264</u>	<u>126,900</u>	<u>–</u>	<u>517,164</u>	<u>–</u>	<u>517,164</u>
RESULT						
Segment results	<u>42,626</u>	<u>(8,223)</u>	<u>1,848</u>	<u>36,251</u>	<u>(63)</u>	<u>36,188</u>
Other income						6,194
Unallocated corporate staff and directors' salaries						(15,928)
Other unallocated corporate expenses						(6,825)
Advertising, promotion and business development expenses						(13,609)
Exchange loss, net						(6,338)
Finance costs						<u>(43,147)</u>
Loss before taxation						(43,465)
Income tax expense						<u>(18,724)</u>
Loss for the period						<u>(62,189)</u>

Note: Others represent other operating segments that are not reportable, which include money lending business.

Segment profit/(loss) represents the profit/(loss) of each segment without allocation of unallocated other income, advertising, promotion and business development expenses, unallocated corporate staff and directors' salaries, change in fair value of derivatives embedded in convertible bonds, exchange gain/(loss), other unallocated corporate expenses, unallocated finance costs and income tax expense. This is the measure reported to the chief operating decision makers for the purposes of resource allocation and performance assessment.

4. FINANCE COSTS

	Six months ended 31 December	
	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Unaudited)
Interests on:		
Bank and other borrowings	15,710	38,916
Lease liabilities	782	1,851
Loan from a non-controlling shareholder of a subsidiary	2,288	2,380
Effective interest on convertible bonds due in 2023 ("CB 2023")	<u>5,204</u>	<u>–</u>
Total interest expense on financial liabilities not at fair value through profit or loss	<u><u>23,984</u></u>	<u><u>43,147</u></u>

5. PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation has been arrived at after charging:

	Six months ended 31 December	
	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Unaudited)
Cost of inventories recognised as an expense	250,336	331,416
Depreciation of property, plant and equipment	7,890	12,286
Depreciation of right-of-use assets	13,414	15,879
Allowance of inventories, net (included in cost of sales)	<u>376</u>	<u>425</u>

6. INCOME TAX EXPENSE

	Six months ended 31 December	
	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Unaudited)
Current tax:		
The People's Republic of China ("PRC") Enterprise Income Tax	4,247	2,969
PRC Withholding Tax	<u>606</u>	<u>10,362</u>
Deferred taxation	<u>4,853</u> <u>(1,817)</u>	<u>13,331</u> <u>5,393</u>
	<u><u>3,036</u></u>	<u><u>18,724</u></u>

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

No provision for taxation in Hong Kong has been made for both periods as the Group incurred tax losses in Hong Kong.

Pursuant to rules and regulations of Bermuda and the British Virgin Islands (“**BVI**”), the Group is not subject to any income tax in Bermuda and the BVI.

Pursuant to the Enterprise Income Tax Law and Implementation Rules of the PRC, subsidiaries of the Company established in the PRC are subject to an income tax rate of 25% for both periods. Certain subsidiaries established in Chongqing, a municipality in Western China, were engaged in a specific state-encouraged industry as defined under the new “Catalogue of Encouraged Industries in the Western Region” (effective from 1 October 2014) pursuant to《財政部、海關總署、國家稅務總局關於深入實施西部大開發戰略有關稅收政策問題的通知》(Caishui [2011] No. 58) issued in 2011 and were subject to a preferential tax rate of 15% when the annual revenue from the encouraged business exceeded 70% of each subsidiary’s total revenue in a fiscal year.

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

PRC withholding income tax of 10% (or 5% to certain subsidiaries of the Company) shall be levied on the dividends declared by the companies established in the PRC to their foreign investors out of their profits earned after 1 January 2008.

7. DIVIDENDS

The Board has resolved not to recommend an interim dividend in respect of the six months ended 31 December 2020 and 31 December 2019 to the holders of ordinary shares of the Company.

8. EARNINGS/(LOSS) PER ORDINARY SHARE

	Six months ended 31 December	
	2020	2019
	HK\$’000	HK\$’000
	(Unaudited)	(Unaudited)
Profit/(loss):		
Profit/(loss) for the period attributable to owners of the Company for the purposes of basic earnings/(loss) per ordinary share	9,862	(37,972)
Effect of dilutive potential ordinary shares		
– Effective interest on CB 2023	5,204	–
– Change in fair value of derivatives embedded in CB 2023	(8,775)	–
Profit/(loss) for the period attributable to owners of the Company for the purposes of diluted earnings/(loss) per ordinary share	6,291	(37,972)

	2020 '000 (Unaudited)	2019 '000 (Unaudited)
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per ordinary share (Note)	1,546,716	1,266,716
Effect of dilutive potential ordinary shares: CB 2023	533,000	—
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per ordinary share	<u>2,079,716</u>	<u>1,266,716</u>

Note: For the six months ended 31 December 2020 and 31 December 2019, the computation of diluted earnings/(loss) per ordinary share did not assume the exercise of share options because their exercise price is higher than the average share price.

9. TRADE AND OTHER RECEIVABLES AND DEPOSITS PAID

The Group generally allows a credit period up to 90 days (30 June 2020: up to 90 days) to its debtors.

Included in trade and other receivables and deposits paid are trade receivables, net of allowance for credit losses, of HK\$48,316,000 (30 June 2020: HK\$36,354,000) and an aged analysis based on invoice date, net of allowance, at the end of the reporting period, is as follows:

	31 December 2020 HK\$'000 (Unaudited)	30 June 2020 HK\$'000 (Audited)
0-30 days	43,159	34,891
31-60 days	3,169	1,244
61-90 days	335	15
Over 90 days	1,653	204
	<u>48,316</u>	<u>36,354</u>

10. TRADE AND OTHER PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

Included in trade and other payables, accruals and deposits received are trade payables of HK\$34,630,000 (30 June 2020: HK\$14,211,000) and an aged analysis based on the invoice date at the end of the reporting period is as follows:

	31 December 2020 <i>HK\$'000</i> (Unaudited)	30 June 2020 <i>HK\$'000</i> (Audited)
0-30 days	33,752	13,981
31-60 days	495	107
61-90 days	259	–
Over 90 days	124	123
	<u>34,630</u>	<u>14,211</u>

11. CAPITAL COMMITMENTS

	31 December 2020 <i>HK\$'000</i> (Unaudited)	30 June 2020 <i>HK\$'000</i> (Audited)
Capital expenditure in respect of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	<u>805</u>	<u>–</u>

12. PLEDGE OF ASSETS

As at 31 December 2020, the Group's bank deposits with carrying amounts of HK\$764,771,000 (30 June 2020: HK\$767,778,000) 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.

The Period under review has been tough for the Group. The COVID-19 spreading worldwide since the turn of the year 2020 hit the global economy hard, the likes of which the world has never seen. Consumer confidence and spending took a dive to the lowest depths seen in the retail industry. Coupled with trade frictions between China and the United States and social unrest in Hong Kong since June of 2019, Hong Kong's retail market experienced unprecedented challenges. Amid this difficult business environment, the Group recorded a decline in overall same-store growth of 8%.

The economic outlook remains gloomy and shrouded in uncertainties. The Group swiftly responded to the turbulent retail market by adopting various measure to save costs and minimize expenditures including negotiating persistently with landlords for rental relief or reductions and shortening shop operating hours in order to enhance cost effectiveness and business efficiency.

FINANCIAL REVIEW

The Group recorded a total turnover of approximately HK\$389 million for the Period, representing a decrease of 25% as compared to the turnover of approximately HK\$517 million for the same period last year (“**Last Period**”).

Nevertheless, the Group recorded a turnaround to profit attributable to owners of approximately HK\$10 million for the six months ended 31 December 2020 as compared to a loss attributable to owners of approximately HK\$38 million of the corresponding period in 2019. The turnaround to profit was mainly attributable to (i) cost saving measures including but not limited to reduction in salary and rental expenses; (ii) receipt of subsidies under the Employment Support Scheme of Hong Kong Government; (iii) decrease in finance costs; (iv) exchange gain arising from the appreciation of the Renminbi and (v) gains arising on change in fair value of the Group's convertible bonds.

Retailing of gold and jewellery products accounted for 88% (2019: 92%) of total turnover. The retail revenue was approximately HK\$343 million for the Period, representing a 28% decrease from approximately HK\$474 million Last Period. Mainland China continued to be the Group's major market, contributing 85% (2019: 73%) of retail sales for the Period. The retail revenue from Mainland China dropped by 16% to HK\$290 million for the Period from HK\$347 million Last Period. The Group's retail revenue from Hong Kong and Macau market was approximately HK\$53 million for the Period, representing a 58% decrease from HK\$127 million Last Period. The Group recorded a decline in overall same-store growth of 8% (2019: decline of 7%), of which same-store growth in Mainland China was a decline of 3% (2019: growth of 4%) and in Hong Kong and Macau was a decline of 18% (2019: decline of 41%).

The Group's selling and distribution expenses decreased to HK\$107 million (2019: HK\$143 million), whereas the percentage to total turnover remained stable of 27% (2019: 28%) this Period.

The Group has successfully implemented various cost control measures such as reduction in salary and rental expenses. General and administrative expenses have decreased by HK\$10 million to HK\$36 million (2019: HK\$46 million).

INTERIM DIVIDENDS

The Board has resolved not to recommend an interim dividend in respect of the six months ended 31 December 2020 to the holders of ordinary shares of the Company.

BUSINESS REVIEW

Retail business

Overall revenue from the retail business was approximately HK\$53 million (2019: HK\$127 million) for Hong Kong and Macau and HK\$290 million (2019: HK\$347 million) for Mainland China.

As at 31 December 2020, the Group had 3 points-of-sale in Hong Kong, 1 points-of-sale in Macau and 350 points-of-sale in Mainland China under the brand name "3D-GOLD." Of the points-of-sale in Mainland China, 62 are self-operated points-of-sale and 288 are licensee points-of-sale.

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. 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) continuing to develop and promote new product series, (iii) persistent costs control including requesting landlords to provide rental reduction or relief; and (iv) 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.

Wholesale and sub-contracting business

The wholesale and sub-contracting business was highly competitive. In order to create greater value for stakeholders, the Group has suspended this business.

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:

- “Peter Rabbit™” Collection
- “Pure Gold Chinese Zodiac” Collection
- “PT Starry Shimmer” Collection
- “Golden Allure GA” Collection
- “Cool Love” Collection
- “K•LOVE” Collection
- “Love Rhythm” Collection
- “Love Lane” 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:

- Organized a “Brand Licensee Business Webinar (2nd quarter 2020)”
- Organized a “Brand Licensee Business Webinar (3rd quarter 2020)”

Awards and Achievements

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

- “10 Years Plus Caring Company”
- “JESSICA – OL Favorite Brand Award 2019/2020 (Best Jewellery)”
- “2019 Hong Kong Awards for Environmental Excellence (HKAEE) – Certificate of Merit (Shops and Retailers Sector)”
- “BOCHK Corporate Environmental Leadership Awards Programme 2019 – Eco Partner”
- “Certificate of Outlet Anti-Epidemic Measures Recognition”
- “Marie Claire – Best Label Award 2019/2020 (Best Jewelry)”
- “Capital Weekly Services Awards 2020 – Jewellery”
- “Social Capital Builder Logo Award (2020-2022)”

OUTLOOK

The outbreak of COVID-19 since early last year is undoubtedly a blow for vulnerable businesses, in particular, retail. The trade disputes between China and the United States and social unrest in Hong Kong, which has also undermined the local economy and consumer sentiment. The Group foresees that the social and economic activities would not be able to resume to normal within a short period of time, and the requisite time for the full economy recovery of the world would remain to be seen. In respond to this challenging business environment, the Group will strive to overcome obstacles ahead and weather the storm by continuing to adjust its business scale and costs to match the reality of the current market situation, negotiating with landlords for rental relief and taking a cautious approach to the retail business development in Hong Kong, while tapping the opportunity of the “internal circulation” policy in Mainland China. The Group will also continuously explore new business opportunities.

In the year ahead, the Group will expand its business to digital technology protection in Mainland China. With the development of 5G technology, the Board believes the digital intellectual property protection services and content measurement will become more important over time and helps its clients including the television network, film studios, record labels, games companies and publishers effectively prevent infringements. Its service identifies unauthorized use of contents and delivers notification to right holders to protect content value. The Board is optimistic about the digital technology industry in the long run. The new business will enable the Group to diversify into a promising industry and it is expected to broaden the Group’s income stream and increase shareholders’ return.

NET PROCEEDS FROM SUBSCRIPTION OF CONVERTIBLE BONDS

As at 31 December 2020, the Company has fully utilized the remaining balance of the net proceeds amounting to approximately of HK\$29,200,000 raised from subscription of convertible bonds completed on 16 January 2020 in the manner set out in the annual report for the year ended 30 June 2020.

OTHERS

Liquidity and Financial Resources

The Group centralises funding for all its operations through the corporate treasury based in Hong Kong. As at 31 December 2020, the Group had total cash and cash equivalents amounting to HK\$877 million (30 June 2020: HK\$879 million). The Group’s net borrowing as at 31 December 2020 was HK\$817 million (30 June 2020: HK\$843 million), being total borrowing of HK\$1,694 million (30 June 2020: HK\$1,722 million) less pledged bank deposits and bank balances and cash of HK\$877 million (30 June 2020: HK\$879 million). After taking into account the gold inventories of HK\$261 million (30 June 2020: HK\$258 million), the Group’s net borrowing as at 31 December 2020 was HK\$556 million (30 June 2020: HK\$585 million), being total borrowing less pledged bank deposits, bank balances and cash and gold inventories. As at 31 December 2020, the Group has available unutilised revolving banking facilities of HK\$664 million (30 June 2020: HK\$640 million).

The current ratio of the Group as at 31 December 2020 was 95% (30 June 2020: 92%), calculated on the basis of current assets of HK\$1,668 million (30 June 2020: HK\$1,629 million) over current liabilities of HK\$1,758 million (30 June 2020: HK\$1,775 million). The gearing ratio was 104% (30 June 2020: 106%), calculated on the basis of the total liabilities of HK\$1,969 million (30 June 2020: HK\$1,983 million) over total assets of HK\$1,886 million (30 June 2020: HK\$1,864 million).

Share Capital and Capital Structure

As at 31 December 2020, the Company had 1,546,716,012 ordinary shares of HK\$0.04 each in issue (30 June 2020: 1,546,716,012 ordinary shares of HK\$0.04).

Treasury Policies

The Group generally financed its operations with internally generated resources and funds from equity and/or debt financing activities. All financing methods will be considered so long as such methods are beneficial to the Company. Bank deposits are in HK\$, RMB, US\$ and MOP.

Capital Commitments

Capital commitments of the Group as at 31 December 2020 are set out in note 11.

Pledged Assets

Pledged assets of the Group as at 31 December 2020 are set out in note 12.

Contingent Liabilities

The Group did not have any material contingent liabilities as at 31 December 2020.

Foreign Exchange Exposure

For the period ended 31 December 2020, the Group earned revenue in HK\$, RMB and MOP and incurred costs in HK\$, RMB, US\$ and MOP. Although the Group currently does not have any foreign currency hedging policy, it does not foresee any significant currency exposure in the near future. However, any permanent or significant change in RMB against HK\$, may have possible impact on the Group's results and financial positions.

Acquisition, Disposal and Significant Investments

The Group did not have any significant investments, material acquisition or disposals of assets, subsidiaries, associates or joint ventures during the period ended 31 December 2020.

Events after the Reporting Period

In February 2021, the Company received a letter of financial support from Mr. Li Ning, the chairman and an executive director and a substantial shareholder of the Company that Mr. Li Ning will provide adequate funds to enable the Group to meet in full its financial obligations as they fall due for at least 18 months from 31 December 2020.

Financial Risk and Exposure

The Group did not have any outstanding material foreign exchange contracts, interest or currency swaps, or other financial derivatives as at 31 December 2020.

Employees and Remuneration Policy

As at 31 December 2020, the Group had 1,000 employees (30 June 2020: 1,061). 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. On 12 June 2019, Mr. Li Ning is appointed as an executive Director and Chairman of the Board to provide strong leadership and ensure the execution of the Group's strategies and policies. After the resignation of the former chief executive officer on 4 October 2019, Mr. Li Ning has been assuming the role of chief executive officer. The Board is of the view that currently vesting the roles of chairman and chief executive in Mr. Li Ning 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 the non-executive director, Mr. Hu Hongwei and the independent non-executive directors, Dr. Loke Yu alias Loke Hoi Lam and Mr. Fan, Anthony Ren Da. However, all the 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. The Group's unaudited interim financial statements for the period ended 31 December 2020 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. Fan, Anthony Ren Da and Mr. Chan Kim Sun.

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 2020 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. Li Ning
Chairman

Hong Kong, 25 February 2021

As at the date of this announcement, the Board comprises Mr. Li Ning (Chairman) and Ms. Dai Wei as executive Directors; Mr. Hu Hongwei as non-executive Director; and Dr. Loke Yu alias Loke Hoi Lam, Mr. Fan, Anthony Ren Da and Mr. Chan Kim Sun as independent non-executive Directors.