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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 30 JUNE 2022

The board of directors (the “**Board**”) of Hong Kong Resources Holdings Company Limited (the “**Company**”) announces the consolidated results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 30 June 2022.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2022

	Notes	2022 HK\$'000	2021 HK\$'000
Revenue	3(a)	901,974	855,820
Cost of sales and services rendered		<u>(705,824)</u>	<u>(587,534)</u>
Gross profit		196,150	268,286
Other income		7,492	16,601
Selling expenses		(197,366)	(221,248)
General and administrative expenses		(76,140)	(65,920)
Other gains and losses		(9,412)	29,505
Change in fair value of derivatives embedded in convertible bonds		2,290	8,971
Loss on early redemption of convertible bonds		(9,650)	–
(Loss)/gain on disposal of subsidiaries		(3)	1,692
(Impairment loss)/reversal of impairment loss on trade receivables recognised under expected credit loss model		(870)	97
Finance costs	4	<u>(42,250)</u>	<u>(46,612)</u>

	<i>Notes</i>	2022 HK\$'000	2021 HK\$'000
Loss before taxation	5	(129,759)	(8,628)
Income tax credit/(expense)	6	<u>12,955</u>	<u>(5,349)</u>
Loss for the year		<u>(116,804)</u>	<u>(13,977)</u>
Other comprehensive income/(expense)			
<i>Items that will not be reclassified to profit or loss:</i>			
Exchange difference arising on translation		18,255	(40,055)
Fair value gain of equity instruments at fair value through other comprehensive income (“FVTOCI”)		<u>–</u>	<u>479</u>
		<u>18,255</u>	<u>(39,576)</u>
<i>Item that will be reclassified subsequently to profit or loss:</i>			
Exchange difference arising on translation of foreign operations		<u>(16,372)</u>	<u>51,380</u>
Other comprehensive income for the year		<u>1,883</u>	<u>11,804</u>
Total comprehensive expense for the year		<u>(114,921)</u>	<u>(2,173)</u>
(Loss)/income for the year attributable to:			
Owners of the Company		(78,919)	(15,112)
Non-controlling interests		<u>(37,885)</u>	<u>1,135</u>
		<u>(116,804)</u>	<u>(13,977)</u>
Total comprehensive (expense)/income for the year attributable to:			
Owners of the Company		(71,639)	(14,997)
Non-controlling interests		<u>(43,282)</u>	<u>12,824</u>
		<u>(114,921)</u>	<u>(2,173)</u>
Loss per ordinary share			
Basic	8	<u>(HK\$0.352)</u>	<u>(HK\$0.098)</u>
Diluted	8	<u>(HK\$0.352)</u>	<u>(HK\$0.098)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

	<i>Notes</i>	2022 HK\$'000	2021 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		16,337	19,706
Right-of-use assets		16,254	7,794
Deposits paid		1,826	275
Intangible assets		168,066	168,066
Equity instruments at FVTOCI		–	–
Deferred tax assets		19,896	13,585
		<u>222,379</u>	<u>209,426</u>
Current assets			
Inventories		602,939	674,132
Right to returned goods asset		2,609	2,312
Trade and other receivables and deposits paid	9	74,182	79,703
Derivative component of convertible bonds		1,791	–
Pledged bank deposits		797,759	766,348
Bank balances and cash		84,599	96,158
		<u>1,563,879</u>	<u>1,618,653</u>
Current liabilities			
Trade and other payables, accruals and deposits received	10	134,793	163,959
Bank and other borrowings		1,563,500	1,504,000
Contract liabilities		15,571	20,206
Refund liabilities		9,130	6,906
Lease liabilities		11,214	5,205
Loan from a non-controlling shareholder of a subsidiary		–	27,000
Derivative component of convertible bonds		1,979	3,239
Income tax liabilities		320	2,155
		<u>1,736,507</u>	<u>1,732,670</u>
Net current liabilities		<u>(172,628)</u>	<u>(114,017)</u>
Total assets less current liabilities		<u>49,751</u>	<u>95,409</u>

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current liabilities		
Convertible bonds	81,072	71,917
Lease liabilities	5,703	3,095
Loan from a non-controlling shareholder of a subsidiary	100,000	100,000
Deferred tax liabilities	42,016	42,016
	<u>228,791</u>	<u>217,028</u>
NET LIABILITIES	<u>(179,040)</u>	<u>(121,619)</u>
EQUITY		
Capital and reserves		
Share capital	270	61,868
Reserves	(81,201)	(128,660)
	<u>(80,931)</u>	<u>(66,792)</u>
Deficit attributable to owners of the Company	(80,931)	(66,792)
Non-controlling interests	(98,109)	(54,827)
	<u>(179,040)</u>	<u>(121,619)</u>
TOTAL DEFICIT	<u>(179,040)</u>	<u>(121,619)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022

1. GOING CONCERN BASIS

The Group incurred a net loss of approximately HK\$116,804,000 during the year ended 30 June 2022 and as at that date, the Group had net current liabilities and net liabilities of approximately HK\$172,628,000 and HK\$179,040,000 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 30 June 2022 after taking into consideration of the following:

- i) The Group was granted certain revolving banking facilities by different banks in Hong Kong with aggregate amounts of HK\$2,150,000,000 (the “**Banking Facilities**”), of which HK\$1,563,500,000 had been utilised as at 30 June 2022. Luk Fook Holdings (International) Limited, being the ultimate holding company of a non-controlling shareholder of a subsidiary of the Company (namely China Gold Silver Group Company Limited), provided financial guarantee amounting to HK\$1,075,000,000 on the Banking Facilities. As at 30 June 2022, the unutilised Banking Facilities was HK\$586,500,000;
- ii) On 23 September 2022, Mr. Li Ning, a chairman and an executive director of the Company, granted a credit facility of HK\$100,000,000 to the Company (the “**Credit Facility**”). The terms of the Credit Facility are unsecured, interest bearing of 5% per annum and repayable at the end of the first anniversary date from the drawn down date. Up to the date of this announcement, the Company utilised RMB26,000,000 (or equivalent to approximately HK\$30,762,000) of the Credit Facility; and
- 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 consolidated financial statements on a going concern basis.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time, which are mandatorily effective for the annual period beginning on or after 1 July 2021 for the preparation of the consolidated financial statements.

Amendments to HKFRS 16	COVID-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2

In addition, the Group applied the agenda decision of the IFRS Interpretations Committee of the International Accounting Standards Board issued in June 2021 which clarified the costs an entity should include as “estimated costs necessary to make the sale” when determining the net realisable value of inventories.

Except as described below, the application of the amendments to HKFRSs in the current year had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Impacts on application of Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 Interest Rate Benchmark Reform – Phase 2

The Group has applied the amendments for the first time in the current year. The amendments relate to changes in the basis for determining the contractual cash flows of financial assets, financial liabilities and lease liabilities as a result of interest rate benchmark reform, specific hedge accounting requirements and the related disclosure requirements applying HKFRS 7 “*Financial Instruments – Disclosures*”.

As at 1 July 2021, the Group has several financial liabilities of which are indexed to benchmark rate that will or may be subject to interest rate benchmark reform. The following table shows the total amounts of these outstanding contracts. The amounts of financial liabilities are shown at their carrying amounts.

	Hong Kong Interbank Offered Rate <i>HK\$’000</i>
<i>Financial liabilities</i>	
Bank and other borrowings	1,486,000

The amendments have had no material impact on the consolidated financial statements as none of the relevant contracts has been transitioned to the relevant replacement rates during the year. The Group will apply the practical expedient in relation to the changes in contractual cash flows resulting from the interest rate benchmark reform for bank borrowings measured in amortised cost.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early adopt the following new and amendments to HKFRS that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts and the related Amendments ¹
Amendments to HKFRS 3	Reference to the Conceptual Framework ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ¹
Amendments to HKAS 1 and HKFRSs Practice Statement 2	Disclosure of Accounting Policies ¹
Amendments to HKAS 8	Definition of Accounting Estimates ¹
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ¹
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use ²
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020 ²

¹ Effective for annual periods beginning on or after 1 January 2023.

² Effective for annual periods beginning on or after 1 January 2022.

³ Effective for annual periods beginning on or after a date to be determined.

The directors of the Company anticipate that the application of all the new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. REVENUE AND SEGMENT INFORMATION

a) Revenue

An analysis of the Group's revenue for the year 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		New media marketing service business in Mainland China		Other		Total	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Retails sales of goods	586,759	689,811	71,424	91,060	-	-	-	-	658,183	780,871
Sales of E-commerce goods	21,487	2,359	-	-	-	-	-	-	21,487	2,359
Franchising and licensing income	38,211	56,239	-	-	-	-	-	-	38,211	56,239
New media marketing services	-	-	-	-	183,725	-	-	-	183,725	-
Cloud computer solution services	-	-	-	-	-	-	368	-	368	-
Trading of computer products	-	-	-	-	-	-	-	16,351	-	16,351
	<u>646,457</u>	<u>748,409</u>	<u>71,424</u>	<u>91,060</u>	<u>183,725</u>	<u>-</u>	<u>368</u>	<u>16,351</u>	<u>901,974</u>	<u>855,820</u>

Disaggregation of revenue for the year ended 30 June 2022

	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	New media marketing service business in Mainland China HK\$'000	Other HK\$'000	Total HK\$'000
Geographical markets					
– Mainland China	646,457	-	183,725	368	830,550
– Hong Kong and Macau	-	71,424	-	-	71,424
	<u>646,457</u>	<u>71,424</u>	<u>183,725</u>	<u>368</u>	<u>901,974</u>
Timing of revenue recognition					
– A point in time	608,246	71,424	183,725	368	863,763
– Over time	38,211	-	-	-	38,211
	<u>646,457</u>	<u>71,424</u>	<u>183,725</u>	<u>368</u>	<u>901,974</u>

Disaggregation of revenue for the year ended 30 June 2021

	Retail sales and franchising operations for selling gold and jewellery products in Mainland China <i>HK\$'000</i>	Retail sales operations for selling gold and jewellery products in Hong Kong and Macau <i>HK\$'000</i>	New media marketing service business in Mainland China <i>HK\$'000</i>	Other <i>HK\$'000</i>	Total <i>HK\$'000</i>
Geographical markets					
– Mainland China	748,409	–	–	16,351	764,760
– Hong Kong and Macau	–	91,060	–	–	91,060
	<u>748,409</u>	<u>91,060</u>	<u>–</u>	<u>16,351</u>	<u>855,820</u>
Timing of revenue recognition					
– A point in time	692,170	91,060	–	16,351	799,581
– Over time	56,239	–	–	–	56,239
	<u>748,409</u>	<u>91,060</u>	<u>–</u>	<u>16,351</u>	<u>855,820</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) New media marketing service business 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 year ended 30 June 2022

	Reportable segments					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	New media marketing service business in Mainland China HK\$'000	Total HK\$'000	Other (Note) HK\$'000	
REVENUE						
External sales	<u>646,457</u>	<u>71,424</u>	<u>183,725</u>	<u>901,606</u>	<u>368</u>	<u>901,974</u>
RESULTS						
Segment (loss)/profit	<u>(15,277)</u>	<u>(1,068)</u>	<u>1,981</u>	<u>(14,364)</u>	<u>-</u>	<u>(14,364)</u>
Unallocated other income						3,091
Unallocated corporate staff and directors' salaries						(27,437)
Other unallocated corporate expenses						(13,268)
Advertising, promotion and business development expenses						(20,973)
Loss on disposal of subsidiaries						(3)
Change in fair value of derivatives embedded in convertible bonds						2,290
Loss on early redemption of convertible bonds						(9,650)
Exchange loss, net						(8,313)
Unallocated finance costs						<u>(41,132)</u>
Loss before taxation						(129,759)
Income tax credit						<u>12,955</u>
Loss for the year						<u><u>(116,804)</u></u>

For the year ended 30 June 2021

	Reportable segments					Consolidated HK\$'000
	Retail sales and franchising operations for gold and jewellery land China HK\$'000	Retail sales operations for gold and jewellery products in Hong Kong and Macau HK\$'000	New media marketing service business in Mainland China HK\$'000	Total HK\$'000	Others (Note) HK\$'000	
REVENUE						
External sales	748,409	91,060	–	839,469	16,351	855,820
RESULT						
Segment profit/(loss)	61,998	(15,483)	–	46,515	(1,019)	45,496
Unallocated other income						6,225
Unallocated corporate staff and directors' salaries						(25,412)
Other unallocated corporate expenses						(17,627)
Advertising, promotion and business development expenses						(18,153)
Gain on disposal of subsidiaries						1,692
Change in fair value of derivatives embedded in convertible bonds						8,971
Exchange gain, net						35,612
Unallocated finance costs						(45,432)
Loss before taxation						(8,628)
Income tax expense						(5,349)
Loss for the year						(13,977)

Note: Others represent other operating segment that is not reportable, which includes the provision of cloud computer solution services and the computer products trading business.

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

4. FINANCE COSTS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Interests on:		
Bank and other borrowings	32,655	30,486
Loans from a non-controlling shareholder of a subsidiary	1,163	4,709
Lease liabilities	1,467	1,241
Effective interest on convertible bonds	<u>6,965</u>	<u>10,176</u>
Total interest expense on financial liabilities not at fair value through profit or loss	<u><u>42,250</u></u>	<u><u>46,612</u></u>

5. LOSS BEFORE TAXATION

Loss before taxation has been arrived at after charging:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Auditor's remuneration	2,270	2,150
Cost of inventories recognised as an expense	525,326	586,915
Depreciation of property, plant and equipment	11,460	14,699
Depreciation of right-of-use assets	13,398	21,727
Allowance of inventories, net (included in cost of sales)	<u>1,407</u>	<u>619</u>

6. INCOME TAX (CREDIT)/EXPENSE

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Current tax:		
The People's Republic of China (the "PRC") Enterprise Income Tax	2,478	14,200
PRC Withholding Tax		
– current year	–	606
– over-provision in prior years	<u>(9,122)</u>	<u>–</u>
Deferred taxation	<u>(6,644)</u>	14,806
	<u>(6,311)</u>	<u>(9,457)</u>
	<u><u>(12,955)</u></u>	<u><u>5,349</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 years 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 years. Certain subsidiaries established in Chongqing (the “**Relevant Subsidiaries**”), 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. Pursuant to《關於延續西部大開發企業所得稅政策的公告》(Announcement No. 23 of the Ministry of Finance in 2020) issued in April 2020, the Relevant Subsidiaries were subject to a preferential tax rate of 15% from 1 January 2021 to 31 December 2030, when the annual revenue from the encouraged business exceeded 60% of each subsidiary’s total revenue in a fiscal year.

Pursuant to《關於實施小微企業普惠性稅收減免政策的通知》(Caishui [2019] No. 13) issued in 2019, certain subsidiaries qualifying as Small and Micro Enterprises whose annual taxable income is less than RMB1.00 million, 25% of the amount will be reduced, and the PRC Enterprise Income Tax will be at the tax rate of 20%; for the portion of annual taxable income exceeding RMB1.00 million but not exceeding RMB3.00 million, 50% of the amount will be reduced, and the PRC Enterprise Income Tax will be at the tax rate of 20%. Pursuant to《關於實施小微企業和個體工商戶所得稅優惠政策的公告》(Caishui [2021] No. 12) issued in 2021, for the portion of annual taxable income less than RMB1.00 million for Small and Micro Enterprises, on the basis of the preferential policies stipulated in Article 2 of《關於實施小微企業普惠性稅收減免政策的通知》(Caishui [2019] No. 13) issued in 2019, the PRC Enterprise Income Tax will be reduced by half.

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

PRC withholding income tax of 5% 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

No dividend was paid or proposed for both years ended 30 June 2022 and 2021, nor has any dividend been proposed since the end of the reporting period.

8. LOSS PER ORDINARY SHARE

	2022 HK\$'000	2021 <i>HK\$'000</i>
Loss:		
Loss for the year attributable to owners of the Company for the purpose of basic and diluted loss per ordinary share (<i>Note (i)</i>)	<u><u>(78,919)</u></u>	<u><u>(15,112)</u></u>
	2022 '000	2021 <i>'000</i>
Number of ordinary shares:		
Weighted average number of ordinary share for the purpose of basic and diluted loss per ordinary share (<i>Notes (i) & (ii)</i>)	<u><u>224,165</u></u>	<u><u>154,672</u></u>

Notes:

- i) The calculation of diluted loss per ordinary share for the years ended 30 June 2022 and 2021 did not assume the conversion of convertible bonds, since the conversion would result in an anti-dilutive effect on loss per share.
- ii) For the years ended 30 June 2022 and 2021, the computation of diluted 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

The Group generally allows a credit period up to 90 days (2021: 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\$45,348,000 (2021: HK\$49,637,000) and an aged analysis based on invoice date at the end of the reporting period, is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
0-30 days	35,616	43,199
31-60 days	581	3,741
61-90 days	1,892	456
Over 90 days	7,259	2,241
	<u>45,348</u>	<u>49,637</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\$14,032,000 (2021: HK\$23,199,000) and an aged analysis based on the invoice date at the end of the reporting period is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
0-30 days	14,011	22,850
31-60 days	7	148
61-90 days	1	51
Over 90 days	13	150
	<u>14,032</u>	<u>23,199</u>

11. CAPITAL COMMITMENTS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Capital expenditure in respect of property, plant and equipment contracted for but not provided in the consolidated financial statements	<u>–</u>	<u>1,133</u>

In addition, the Group was committed on 29 June 2022 to enter into a new lease of a retail shop in Hong Kong for the period from 1 August 2022 to 31 July 2023. The lease payments under which amounted to HK\$990,000.

12. PLEDGE OF ASSETS

As at 30 June 2022, the Group's bank deposits with carrying amounts of HK\$797,759,000 (2021: HK\$766,348,000) were pledged to banks as securities to obtain the banking facilities granted to subsidiaries of the Group.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The following is an extract of the independent auditor's report on the consolidated financial statements of the Group for the year ended 30 June 2022.

Qualified opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 30 June 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Qualified Opinion

As disclosed in note 21 to the consolidated financial statements, the predecessor auditor of the Company (the “**Predecessor Auditor**”) expressed a qualified opinion due to various limitations in evidence available to it regarding the loan receivables amounting to HK\$74,400,000 and the respective interest receivables amounting to HK\$11,558,000 (collectively referred to as the “**Loans**”) as at 30 June 2019. The Loans were advanced by Prosten Finance Limited, a wholly-owned subsidiary of the Company as at 30 June 2019 and 2020 whereas Prosten Finance Limited was disposed of by the Group during the year ended 30 June 2021 (the “**Disposal**”). Due to various limitations in evidence available regarding the Loans as at the date of the Disposal, we were unable to carry out satisfactory audit procedures to obtain reasonable assurance regarding the accuracy in respect of the gain from the Disposal during the year ended 30 June 2021. Details of the limitations in evidence available regarding the Loans and the Disposal are described in notes 21 and 32 to the consolidated financial statements respectively.

Since balances of assets and liabilities of the Group as at 1 July 2020 entered into the determination of the financial performance and cash flows of the Group for the year ended 30 June 2021, we were unable to determine whether adjustments might have been necessary in respect of the consolidated financial performance of the Group for the year ended 30 June 2021 reported in the consolidated statement of profit or loss and other comprehensive income and the net cash flows for the year ended 30 June 2021 reported in the consolidated statement of cash flows. Any adjustments found to be necessary would have a consequential impact on the Group's financial performance and cash flows for the year ended 30 June 2021. These circumstances caused us to qualify our opinion on the consolidated financial statements in respect of the year ended 30 June 2021.

Because the abovementioned matter has a possible effect on the comparability of the current year's figures and the corresponding figures in the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of cash flows for the year ended 30 June 2022, our opinion on the consolidated financial statements for the year ended 30 June 2022 is therefore qualified.

We conducted our audit in accordance with Hong Kong Standards on Auditing (“**HKSAs**”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (the “**Code**”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The ever-evolving COVID-19 pandemic continued to challenge the world. In the first half of 2022, the outbreaks of COVID-19 occurred in certain regions of Mainland China resulting in the reintroduction of stringent containment policies and lockdowns which impacted sales in those regions. In Hong Kong, sales performance saw recovery but this trend did not continue following the outbreak of the fifth wave of COVID-19. Amid the protracted COVID-19, the Group mitigated the current market quandary by expansion of its business into new media marketing services.

RESULTS OF THE GROUP

The Group recorded a total turnover of approximately HK\$902 million for the year ended 30 June 2022 (“**Year**”), representing an increase of 5% as compared to the turnover of approximately HK\$856 million for the same period last year (“**Last Year**”). The loss for the Year attributable to the owners was approximately HK\$79 million compared to approximately HK\$15 million Last Year, representing an increase of 422%. This was mainly attributable to (i) turnaround of the exchange gain for the year ended 30 June 2021 to exchange loss; and (ii) loss on early redemption of convertible bonds.

The Group’s selling and distribution expenses decreased to HK\$197 million (2021: HK\$221 million), whereas the percentage to total turnover decreased to 22% (2021: 26%) this Year. Payment of lease liabilities amounted to HK\$52 million (2021: HK\$68 million). The percentage to turnover remained at a relatively low level. The Group has negotiated with landlords for rental relief or reductions in this difficult economic environment.

General and administrative expenses have increased by HK\$10 million to HK\$76 million (2021: HK\$66 million) as a result of reallocation of expenses from selling expenses this Year.

The Group’s other gains and losses have turned to a negative of HK\$9 million for the Year, compared to a positive of HK\$30 million Last Year. Included in other gains and losses are exchange loss of HK\$8 million for the Year.

Gold and Jewellery Retail Business

The retail revenue was approximately HK\$680 million for the Year, representing a decrease of 13% from approximately HK\$783 million Last Year. Retailing of gold and jewellery products accounted for 75% (2021: 92%) of total turnover. Mainland China continued to be the Group's major market, contributing 89% (2021: 88%) of retail sales for the Year. The retail revenue from Mainland China decreased by 12% to approximately HK\$608 million for the Year from approximately HK\$692 million Last Year. The Group's retail revenue from Hong Kong and Macau market was approximately HK\$72 million for the Year, representing a decrease of 22% from approximately HK\$91 million Last Year. The Group recorded a decline in overall same-store growth of 17% (2021: growth of 14%), of which same-store growth in Mainland China was a decline of 18% (2021: growth of 24%) and in Hong Kong and Macau was a growth of 42% (2021: decline of 11%).

As at 30 June 2022, the Group had 3 points-of-sale in Hong Kong and 298 points-of-sale in Mainland China under the brand name "3D-GOLD." Of the points-of-sale in Mainland China, 58 are self-operated points-of-sale and 240 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) introducing a new regional franchisee system to strengthen the retail operations, (iii) continuing to develop and promote new product series, (iv) persistent costs control including requesting landlords to provide rental reduction or relief; 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 Year, the Group has enlarged its product portfolio to capture different market segments. Newly launched products include:

- “Shimmer Beat” Collection
- Gold Wedding Collection
- “Love Glitter” Collection
- “Golden Allure GA” Collection
- Pure Gold Chinese Zodiac Collection
- Classic Gold Collection
- “3DG Jewellery x Luo Yang” Collection
- “Love Lane” Collection
- “Love Rhythm” Collection
- “Cool Love” Collection
- Pure Gold Chinese Zodiac Collection
- “Peter Rabbit™” Collection
- “Starry Shimmer” Collection

Marketing and Promotion

The Group strongly believes in the value of a quality brand. The Group continues to promote the “3DG Jewellery 金至尊” brand through a comprehensive marketing programme. Some of Group’s marketing programme include:

- Organized a “Brand Licensee Business Webinar (3rd quarter 2021)”
- Collaborated with Xu Kai to organize a live-streamed product launch for “Love Glitter” Collection
- Organized a “Brand Licensee Business Webinar (4th quarter 2021)”
- Organized the Roadshows of “3DG Jewellery x Luo Yang Collection”
- Organized a “Brand Licensee Business Webinar (1st quarter 2022)”
- Organized a “Brand Licensee Business Webinar (2nd quarter 2022)”

Awards and Achievements

The Group has also achieved industry awards as recognition for brand excellence and for its efforts in promoting service excellence in the jewellery retail sector.

- “CORPHUB-Hong Kong’s Most Outstanding Services Awards 2021-Jewellery“
- “Capital Weekly-Services Awards 2021 – Jewellery”
- “BOCHK Corporate Environmental Leadership Awards Programme 2020-Eco Partner”
- “Promoting Happiness Index Foundation Hong Kong-Happy Company”
- “Marie Claire-Best Label Award 2020/2021 (Best Jewelry)”
- “HKRMA Certificate of Outlet Anti-Epidemic Measures Recognition”
- “Hong Kong Retail Management Association-2021 Quality Service Retailer of the Year of Flagship Stores-Bronze Award”
- “TVB Weekly Brand Award 2021” by TVB Weekly
- “CAPITAL – ESG Awards 2021”
- “Elite Jewellery Brand Awards 2021” by Ming Pao Weekly

New Media Marketing Service Business

The Internet economy has become one of the key growth drivers of the Chinese economy in recent years. With a growing number of smartphone users in China and driven by the boom in smartphone usage, the number of internet users in China is growing steadily, providing business opportunities for merchants, media platforms and media publishers. Given the distinctive features and functions offered by media platforms, they have grown rapidly and become the main channel for merchants to market and promote their brands and products. Media marketing service providers connect merchants with media publishers. Driven by the growing interest and popularity of leading media platforms, such as WeChat, TouTiao.com and TikTok, for internet users, merchants are spending more resources and marketing budgets on media than traditional websites, providing business opportunities for media marketing service providers. Moreover, catalyzed by the COVID-19 pandemic, users have shifted from traditional consumption patterns to online consumption, increasing consumer reliance on online channels and accelerating the digital marketing process. The construction of channels for all-area traffic has also been upgraded from graphic video promotion to live streaming, and merchants tend to place advertisements on the Internet. Considering the potential growth in the media marketing service industry, the Group has expanded its business into new media marketing services.

The Group's new media marketing service provides Internet marketing technology for merchants. Through data collection and analysis, the Group offers solutions to merchants to improve the effectiveness and efficiency of their advertisements.

The Group builds ties between clients (i.e., merchants) and media publishers through the use of technology and platforms, providing a combination of display and performance-based marketing technology services. Display marketing refers to a marketing method of showing advertising content in the form of images, videos, etc., while performance-based marketing refers to a type of online marketing that charges customers for specific actions (e.g., clicks, downloads or sales) taken by the Internet audience. Based on adequate communication with the client on the characteristics and needs of the product, the Group will make use of its business intelligence technology to analyse the personalities of target audience and develop corresponding distribution strategies so as to identify target audience on the Internet. The Group will also place online advertisements for clients by using an appropriate mix of media and advertising position, for example, displaying advertising content in the form of images (e.g., banners, inserts or graphics) and videos. Together with real-time recording, performance analysis, tracking and evaluation, the Group further optimizes the advertising process to enhance the marketing effect of client's advertisements, acquiring more users for our clients. The revenue from the new media marketing service business was approximately HK\$184 million (2021: nil).

OUTLOOK

The COVID-19 pandemic has proved to be a catalyst to accelerate the shift to e-commerce sales. Building on the change in consumption pattern, the Group has co-operated with various renowned e-commerce platforms in Mainland China and Hong Kong and its e-commerce sales has a continuous and remarkable growth in turnover during the Year. The Group will continue to strengthen the collaboration with online marketplaces in order to capture the strong momentum of e-commerce sales. In addition, shifting towards from traditional business models to new media on the Internet has become a trend. According to the White Paper on the Development of Digital Economy in China published in April 2021, the scale of China's digital economy has reached RMB39.2 trillion in 2020. With the development of the metaverse ecosystem, there is huge scope for the development of new media business.

Going forward, the Group will continue to swiftly respond to the turbulent retail market by adopting various measure to save costs and minimise expenditures in order to enhance cost effectiveness and business efficiency. The Group is also continuously exploring opportunities in the new media marketing services market. Through a complete service chain consists of enhanced marketing strategy coverage rate, media placement and execution, results monitoring and optimization, precise marketing, traffic integration and other services, the Group is committed to building an integrated marketing platform from a fundamental integration of Internet traffic to a full range of precise digital marketing services.

FINAL DIVIDENDS

The Board has resolved not to declare any final dividend in respect of the year ended 30 June 2022 to the holders of ordinary shares of the Company.

FUNDS RAISING AND USE OF PROCEEDS

The Company has received net proceeds of approximately HK\$83.5 million in connection with the subscription of subscription shares and convertible bonds (“**First Subscription**”) and HK\$57.5 million in connection with the subscription of subscription shares and convertible bonds (“**Second Subscription**”). The net proceeds of the First Subscription together with the Second Subscription was approximately HK\$141 million. As disclosed in the Company’s announcement dated 31 May 2021, 12 November 2021 and 6 December 2021 and circular dated 30 June 2021, the net proceeds will be applied as to approximately HK\$126 million for repayment of indebtedness and HK\$15 million for general working capital. As of 30 June 2022, the net proceeds had been applied as follows:

	Amount of net proceeds intended to be allocated <i>(HK\$ million)</i>	Actual utilized amount as of 30 June 2022 <i>(HK\$ million)</i>	Utilized amount as of 30 June 2022 <i>(HK\$ million)</i>	Expected timelines for utilising the remaining net proceeds <i>Note 2</i>
Repayment of indebtedness				
Repayment of loan	13.50	(13.50)	–	N/A
Repayment of other borrowing	22.00	(22.00)	–	N/A
				On or before
Repayment of deposits received	10.50	(7.00)	3.50	31 December 2022
Repayment of convertible bonds	80.00	(80.00)	–	N/A
	126.00	(122.50)	3.50	
				On or before
General working capital	15.00	(15.00)	0	31 December 2022
	141.00	(137.50)	3.50	

Note 1 As 30 June 2022, the unutilised net proceeds from the subscriptions were deposited with a licensed bank.

Note 2 The expected timelines for utilizing the remaining net proceeds is based on the best estimation made by the Group. It may be subject to further change based on the future development of the market condition.

INVESTOR RELATIONS

The Group highly values its relationships with investors. Committed to maintaining close ties to professionals from the asset management community, the Group has heightened the transparency of its operations, and has through open and effective communication, enabled investors and the investment community to better understand its management philosophy and long-term development plans.

The Group welcomes and treasures investors' comments as they can provide a means to strengthen its value to shareholders. The Group resolves to continue its efforts to create value for investors.

OTHERS

Liquidity and Financial Resources

The Group centralises funding for all its operations through the corporate treasury based in Hong Kong. As at 30 June 2022, the Group had total cash and cash equivalents amounting to HK\$882 million (2021: HK\$863 million). The Group's net borrowing as at 30 June 2022 was HK\$862 million (2021: HK\$840 million), being total borrowing of HK\$1,745 million (2021: HK\$1,703 million) less pledged bank deposits and bank balances and cash of HK\$882 million (2021: HK\$863 million). After taking into account the gold inventories of HK\$285 million (2021: HK\$266 million), the Group's net borrowing as at 30 June 2022 was HK\$577 million (2021: HK\$574 million), being total borrowing less pledged bank deposits, bank balances and cash and gold inventories. As at 30 June 2022, the Group has available unutilised revolving banking facilities of HK\$587 million (2021: HK\$664 million).

The current ratio of the Group as at 30 June 2022 was 90% (2021: 93%), calculated on the basis of current assets of HK\$1,564 million (2021: HK\$1,619 million) over current liabilities of HK\$1,737 million (2021: HK\$1,733 million). The gearing ratio was 110% (2021: 107%), calculated on the basis of the total liabilities of HK\$1,965 million (2021: HK\$1,950 million) over total assets of HK\$1,786 million (2021: HK\$1,828 million).

Capital Commitments

Capital commitments of the Group as at 30 June 2022 are set out in note 11.

Pledged Assets

Pledged assets of the Group as at 30 June 2022 are set out in note 12.

Contingent Liabilities and Guarantee

As at 30 June 2022, the Company had corporate financial guarantee amounting to HK\$1,075,000,000 (2021: HK\$1,075,000,000) to banks in respect of 50% of the aggregated amount of banking facilities granted to its subsidiary. As at 30 June 2022, the banking facilities utilised by the subsidiary was HK\$1,563,500,000 (2021: HK\$1,486,000,000). As at 30 June 2022, a loss allowance of HK\$18,320,000 (2021: HK\$12,435,000) estimated under the expected credit loss model in respect of such corporate financial guarantee in the Company's statement of financial position was recognised whereas no financial impact on the consolidated financial statements. As at 30 June 2022 and 2021, save as disclosed above, the Group and the Company did not have any material contingent liabilities.

Significant Investments, Material Acquisitions and Disposals

The Group did not have any significant investments, material acquisitions or disposals of assets, subsidiaries, associates or joint ventures during the year ended 30 June 2022.

Event after the reporting period

On 11 August 2022, the Company, Ultra Best Global Limited, which is an indirect wholly-owned subsidiary of the Company (the “**Purchaser**”), and two individuals (namely the “**Vendor A**” and the “**Vendor B**”) entered into a sale and purchase agreement (the “**Sale and Purchase Agreement**”) pursuant to which the Purchaser has conditionally agreed to purchase, and Vendor A and Vendor B have conditionally agreed to sell (i) the entire issued share capital of Meta Cosmos Limited (the “**Target Company A**”) and Pioneer Digital Technology Co., Limited (the “**Target Company B**”) respectively; and (ii) all obligations, liabilities and debts owing or incurred by the Target Company A to the Vendor A and by the Target Company B to the Vendor B (whether actual, contingent or deferred), at an aggregate consideration of HK\$15,587,000 (the “**Consideration**”). The Consideration shall be settled by way of allotment and issue of 53,934,320 ordinary shares of the Company at an issue price of approximately HK\$0.289 per share, in which 44,028,016 and 9,906,304 ordinary shares of the Company shall be allotted and issued to the Vendor A and Vendor B respectively.

As at 11 August 2022, 天津智耘貳零科技有限公司 (“**天津智耘**”) is a non-wholly owned subsidiary of the Company in which the Group holds 51% of the registered capital of 天津智耘. While the Target Company A and the Target Company B hold 40% and 9% of the registered capital of 天津智耘 respectively. Upon the completion of the aforesaid acquisitions, 天津智耘 will become an indirect wholly-owned subsidiary of the Company.

As at the date of this announcement, the aforesaid acquisitions are not completed and are subject to the fulfillment of various conditions as stipulated in the Sale and Purchase Agreement by 31 December 2022 or such other date as the parties to the Sale and Purchase Agreement may agree.

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 30 June 2022.

Employees and Remuneration Policy

As at 30 June 2022, the Group had 947 employees (2021: 982). 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 Year, 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 complied with the code provisions of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited throughout the Year, except for the following deviations:

CG Code A.2.1 (which has been renumbered as C.2.1 since 1 January 2022) 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 of the Company and chairman of the Board to provide strong leadership and ensure the execution of the Group's strategies and policies. 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 (which has been deleted since 1 January 2022) 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 Dr. 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 Year.

APPOINTMENT OF NEW EXTERNAL AUDITOR

The Group's consolidated financial statements for the years ended 30 June 2019 were audited by Deloitte Touche Tohmatsu. Crowe (HK) CPA Limited was appointed as the external auditor of the Company to fill the vacancy following the retirement of Deloitte Touche Tohmatsu as the independent auditor of the Company at the annual general meeting of the Company held on 23 June 2020. The Group's consolidated financial statements for the year ended 30 June 2020 and 2021 were audited by Crowe (HK) CPA Limited. Save as disclosed, there were no other changes in the Company's independent auditor in the past three years. The Group's consolidated financial statements for the year ended 30 June 2022 were audited by Crowe (HK) CPA Limited. A resolution will be proposed at the 2022 annual general meeting to re-appoint Crowe (HK) CPA Limited as the external auditor of the Company.

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. The Group's consolidated financial statements for the year ended 30 June 2022 have been reviewed by the Audit Committee and audited by the Company's independent auditor Crowe (HK) CPA Limited. As at the date of this announcement, the Audit Committee comprises three independent non-executive directors, namely, Dr. Loke Yu alias Loke Hoi Lam, Dr. Fan, Anthony Ren Da and Mr. Chan Kim Sun.

PUBLICATION OF ANNUAL RESULTS AND DESPATCH OF ANNUAL 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 annual report 2022 containing all the information required by the Listing Rules will be despatched 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, 29 September 2022

As at the date of this announcement, the Board comprises Mr. Li Ning (Chairman) and Mr. Wang Chaoguang (Co-chairman) as executive directors; Mr. Hu Hongwei as non-executive director; and Dr. Loke Yu alias Loke Hoi Lam, Dr. Fan, Anthony Ren Da and Mr. Chan Kim Sun as independent non-executive directors.