HONG KONG RESOURCES HOLDINGS COMPANY LIMITED

香港資源控股
HONG KONG
RESOURCES
HOLDINGS

(Stock Code: 2882)

Interim Report 2009

MISSION

Hong Kong Resources Holdings Company Limited aims at growing into an integrated resources-development company of scale, from mining to retailing. We continue to seek opportunities, both upstream and downstream, in precious metals (gold, silver) and beyond.

Contents

Corporate Information

DIRECTORS

Executive Directors

Dr. Wong, Kennedy Ying Ho[b,c], BBS, J.P., *Chairman*
Mr. Chui Chuen Shun[b]
Dr. Hui Ho Ming, Herbert, J.P.
Mr. Mung Kin Keung

Non-executive Director

Mr. Yin Richard Yingneng[c]

Independent Non-executive Directors

Mr. Fan, Anthony Ren Da[a,b,c]
Ms. Estella Yi Kum Ng[a,b,c]
Mr. Wong Kam Wing[a,b,c]

a *Member of the Audit Committee*
b *Member of the Remuneration Committee*
c *Member of the Nomination Committee*

COMPANY SECRETARY

Mr. Michael Sui Wah Wong

AUDITORS

Ray W.H. Chan & Co.
Certified Public Accountants

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton, HM11
Bermuda

PRINCIPAL OFFICE IN HONG KONG

Rooms 1402-03, 14th Floor
Admiralty Centre, Tower 2
18 Harcourt Road
Hong Kong

PRINCIPAL BANKERS

Shanghai Commercial Bank Limited

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

STOCK CODE

2882

WEBSITE

www.hkrh.hk

Chairman's Statement

It was a milestone in the history of Hong Kong Resources Holdings Company Limited ("**HKRH**"). In July 2009, HKRH entered the gold and jewellery retailing business in the Greater China region through the successful acquisition of a Hong Kong-based jewellery retail chain, with more than 240 points-of-sale in Hong Kong, Macau and Mainland China, under the brand 3D-GOLD.

Capturing the large business opportunities generated by the surging purchasing power in the Asia-Pacific region, particularly that in China, remains our main objective. To this end, we are committed to expanding the jewellery retail network, under the 3D-GOLD brand, through opening new shops under proprietary management, as well as new shops to be opened under our franchise programme. We are equally committed to achieving customer satisfaction and loyalty through quality service and product innovation. Our precious metals and electroplating chemical trading business continues to benefit from high demand for consumer electronics in the region.

HKRH aims at becoming an integrated resource-development company of scale, from mining to retailing, in Greater China and beyond. Our vision is supported by a seasoned management team with strong connections in, and comprehensive knowledge of, China. We conduct our business with clear strategy and tactics, financial transparency, social responsibility, and overall corporate governance consistent with international best practices. HKRH creates value for shareholders, delivers satisfaction to customers, and shares the fruits of success with all who contribute to our success.

On behalf of the Board, I would like to take this opportunity to express our appreciation to the management team and staff of the Group for their contribution and also give our sincere gratitude to all our shareholders for their continuous support.

Dr. Wong, Kennedy Ying Ho, BBS, J.P.
Chairman

Hong Kong, 21 December 2009

Management Discussion and Analysis

The board of directors (the "**Board**") of Hong Kong Resources Holdings Company Limited (the "**Company**") is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively the "**Group**") for the six months ended 30 September 2009 (the "**Period**").

RESULTS

On 28 July 2009, the acquisition of the restructured group of 3D-GOLD Jewellery Holdings Limited (Provisional Liquidators Appointed) (Subject to Scheme of Arrangement) and its subsidiaries or its business ("**Restructured Group**" as defined in the Company's circular dated 12 June 2009) was completed ("**3D-GOLD Acquisition**"). The Restructured Group is principally engaged in the retailing of gold products, other precious metal products and jewellery products under the brandname "3D-GOLD" in Hong Kong, Macau and the People's Republic of China (the "**PRC**").

As a result, the Group recorded a turnover of approximately HK$314,760,000 for the Period, representing an increase of 314% as compared to turnover of approximately HK$76,010,000 for the corresponding period of last year. The profit attributable to equity holders of the Company was approximately HK$108,667,000 for the Period compared to profit of approximately HK$296,670,000 for the corresponding period of last year.

The increase in the Group's turnover and gross profit was mainly contributed by the retailing business of gold products, other precious metal products and jewellery products acquired from the 3D-GOLD Acquisition. In particular, the profit for the Period was primarily attributable to an unaudited non-recurring discount of approximately HK$197,844,000 arising from the 3D-GOLD Acquisition, whereas the profit for the corresponding period of last year was primarily attributable to an unaudited estimation of non-recurring gain of approximately HK$344,714,000 on disposal of subsidiaries related to the corporate restructuring which was completed on 30 September 2008.

INTERIM DIVIDEND

Details of interim dividend are set out in note 8 to the condensed consolidated financial statements.

Management Discussion and Analysis

BUSINESS REVIEW AND PROSPECTS

Upon the completion of the 3D-GOLD Acquisition, the Group has focused its operation in the retailing of the jewellery products. Turnover of the jewellery retail accounted for 95.96% of the Group's turnover. Of which an amount of approximately HK$31,559,000 and HK$270,487,000 was contributed from the Hong Kong & Macau operation and the PRC operation, respectively.

The Group strongly believes that sales performance will be greatly influenced by brand reputation: a reputable brand helps to enforce customer purchasing confidence. Accordingly, the Group will continue to promote the "3D-GOLD" brand through various promotions via a well developed brand management system, and to convey a consistent brand image of superior quality in the markets.

In September 2009, the Group unveiled the new image of the 3D-GOLD store and the new product series at the Shenzhen International Jewellery Fairs. Renovation has already being completed for stores in Shenzhen, Hangzhou, Ningbo and Tianjin. The new image has posted strong customer appeal. Upto the date of this report, the Group has 9 shops in Hong Kong, 2 shops in Macau and 255 shops in the PRC. Of the shops in the PRC, 112 were self operated shops and 143 were franchise stores.

Management Discussion and Analysis

BUSINESS REVIEW AND PROSPECTS (CONTINUED)

The Group will enlarge its franchise operation, strategic partnerships and brand alliances. Foremost among priorities is expanding the retail business, giving priority by city or region and focusing on franchise operation first and self-operated retail chains second. The PRC market will remain the key growth driver in the future.

The Group is concurrently exploring opportunities for establishing its presence in markets beyond Greater China.

In addition to its own jewellery retail point-of-sale network, the Group has plans to diversify its sales channels in the physical gold market. In October 2009, the Group entered into a cooperation agreement with The Agricultural Bank of China Limited ("**ABC**"). By this agreement, the Group will sell gold bullion products on consignment through ABC's existing network of 24,000 branches. This opportunity of leverage is expected to enable the Group to strengthen its brand exposure in targeted regional markets in the PRC efficiently and economically, without incurring large capital expenditure on shop leases and renovation, or working capital on hiring retail staff, or much greater demand on management resources.

PRC remained the key market of the Group. According to the data released by National Bureau of Statistics, the total retail sales of gold and silver jewellery in China for the first eleven months of 2009 increased by 15% compared with the corresponding period in 2008. The growth in the PRC for the past few years had stimulated domestic consumption. Mainland consumers have shown increasing purchases of gold and gold related products, often based on belief that gold can retain residual value. The Group will continue its effort in capturing a larger share of China's vast domestic market.

The Board wishes to achieve vertical integration in the Group's operations, to range from gold mines and volume trading of physical gold to the retailing of gold jewellery products.

The Group will continue to seek reliable agents worldwide to broaden sale channel of gold under the 3D-GOLD trademark, and to build on its retail operations for maximising the brand value of 3D-GOLD, broadening the income streams and strengthening the cash flow thereby maximising the return for shareholders.

Management Discussion and Analysis

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

The Group centralizes funding for all its operations through the corporate treasury based in Hong Kong. As at 30 September 2009, the Group had total cash and cash equivalents amounting to HK$49,177,000 *(31 March 2009: HK$115,803,000)* whilst total net assets was approximately HK$532,100,000 *(31 March 2009: HK$215,758,000)*. The Group's gearing ratio as at 30 September 2009 was 54% *(31 March 2009: Nil)*, being a ratio of total bank and other borrowings of approximately HK$284,818,000 (*31 March 2009: Nil*) to total equity of approximately HK$532,100,000 *(31 March 2009: HK$215,758,000)*.

The Company has conducted a placement of 40,000,000 ordinary shares of HK$0.01 each at a price of HK$1.30 each during the Period, for which the Company received net proceeds of approximately HK$48,000,000.

Subsequent to 30 September 2009, the Company has placed 80,000,000 ordinary shares of HK$0.01 each at a price of HK$1.63 per share, for which the Company has received net proceeds of approximately HK$125 million. At the date of this report, the gearing ratio of the Group has been reduced to 35%.

Aware that reliance on short-term loans exposes the Group to the risk of shortage of facilities, the Group is in negotiation to convert short-term loans into longer terms to achieve greater flexibility in future business expansion.

Contingencies and Commitments

Contingencies and commitments of the Group as at 30 September 2009 are set out in note 18 to the condensed consolidated financial statements.

Foreign Exchange Exposure

The Group considers its foreign currency exposure insignificant.

The Group did not have any outstanding foreign exchange contracts, interest or currency swaps, other derivative financial instruments, options or convertible notes as at 30 September 2009.

Other Information

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2009, the interests and short positions of the directors and chief executives of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("**SFO**"), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, were as follows:

	Number of ordinary shares				
Name of director	**Personal interests**	**Corporate interests**	**Share options**	**Total**	**% of total issued shares**
Executive Directors					
Dr. Wong, Kennedy Ying Ho	4,517,900	220,985,240 *(Note a)*	1,000,000	226,503,140	39.61%
Mr. Chui Chuen Shun	1,085,900	– *(Note a)*	1,000,000	2,085,900	0.36%
Dr. Hui Ho Ming, Herbert	5,467,900	–	1,000,000	6,467,900	1.13%
Mr. Mung Kin Keung	–	–	5,517,900	5,517,900	0.97%
Non-executive Director					
Mr. Yin Richard Yingneng	–	–	500,000	500,000	0.09%
Independent Non-executive Directors					
Mr. Fan, Anthony Ren Da	–	–	551,790	551,790	0.10%
Ms. Estella Yi Kum Ng	–	–	551,790	551,790	0.10%
Mr. Wong Kam Wing	3,790	–	100,000	103,790	0.02%

Note:

(a) Dr. Wong, Kennedy Ying Ho ("**Dr. Wong**") was deemed to be interested in these shares through his controlling interest in Perfect Ace Investments Limited ("**Perfect Ace**") and Limin Corporation. Of the 220,985,240 shares, 196,685,240 shares are held by Perfect Ace and 24,300,000 shares are held by Limin Corporation under its own name as registered shareholder. Perfect Ace is owned as to 96.11% by Ying Ho (Nominees) Limited ("**YH Nominees**") and as to 3.89% by Mr. Chui Chuen Shun. YH Nominees holds 100% in trust for Limin Corporation, which is wholly-owned by Dr. Wong.

Other Information

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (CONTINUED)

Name of director	Capacity	Number of issued convertible preference shares *(Note a)*	% of issued convertible preference shares
Executive Directors			
Dr. Wong, Kennedy Ying Ho	Controlled corporation	791,605,800 *(Note b)*	73.91%
Dr. Hui Ho Ming, Herbert	Beneficial owner	15,000,000	1.40%
Non-executive Director			
Mr. Yin Richard Yingneng	Controlled corporation	135,394,200 *(Note c)*	12.64%

Notes:

(a) Each preference share is convertible to one ordinary share of the Company at any time from a date not earlier than one year from 3 October 2008.

(b) Dr. Wong was deemed to be interested in 791,605,800 preference shares through his controlling interests in Perfect Ace and Limin Corporation. Of the 791,605,800 preference shares, 734,005,800 preference shares are held by Perfect Ace and 57,600,000 preference shares are held by Limin Corporation under its own name as registered shareholder.

(c) Mr. Yin Richard Yingneng ("**Mr. Yin**") was deemed to be interested in 135,394,200 preference shares through his controlling interests in Capital Ocean Investments Limited, First Vanguard Private Equity Segregated Portfolio, First Vanguard Opportunity Fund SPC, First Vanguard AAA Management Limited, all of which are wholly-owned subsidiaries of First Vanguard Group Limited, which is wholly-owned by Mr. Yin.

Save as disclosed above, the Company had not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30 September 2009.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2009, the interests and short positions of the shareholders, other than a director or chief executive of the Company, in the shares or underlying shares of the Company as recorded in the register maintained by the Company pursuant to Section 336 of the SFO were as follows:

Name of substantial shareholder	Capacity	Number of issued ordinary shares held	% of the issued ordinary shares held
Perfect Ace Investments Limited	Beneficial owner	196,685,240 *(Note a)*	34.40%
Liful Investment Limited	Beneficial owner	40,000,000 *(Note b)*	7.00%

Other Information

SUBSTANTIAL SHAREHOLDERS (CONTINUED)

Notes:

(a) Refer to the corporate interests of Dr. Wong in the Company as disclosed under the "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" section above.

(b) Liful investment Limited is wholly-owned by Financial Enterprise Investments Limited which in turn is wholly-owned by Shau Kee Financial Enterprises Limited ("**Shau Kee**"). Shau Kee is wholly-owned by Lee Financial (Cayman) Limited, which is wholly-owned by Mr. Lee Shau Kee.

Name of substantial shareholder	Capacity	Number of issued convertible preference shares *(Note a)*	% of the issued convertible preference shares
Perfect Ace Investments Limited	Beneficial owner	734,005,800 *(Note b)*	68.53%
Capital Ocean Investments Limited	Beneficial owner	135,394,200 *(Note c)*	12.64%
Savona Limited	Beneficial owner	100,000,000 *(Note d)*	9.34%
Limin Corporation	Beneficial owner	57,600,000 *(Note b)*	5.38%

Notes:

(a) Each preference share is convertible to one ordinary share of the Company at any time from a date not earlier than one year from 3 October 2008.

(b) Refer to the convertible preference shares in the Company held by Dr. Wong as disclosed under the "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" section above.

(c) Refer to the convertible preference shares in the Company held by Mr. Yin as disclosed under the "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" section above.

(d) Savona Limited is wholly-owned by Chime Corporation Limited, which is owned as to 84.37% by Nina Kung (Estate of Nina Kung also known as Nina T.H. Wang).

Saved as disclosed above, the Company had not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30 September 2009.

Other Information

SHARE OPTIONS

The Company adopted a share option scheme on 23 January 2009 for the purpose of providing incentives or rewards to eligible persons for their contribution or potential contribution to the Group. Eligible persons including but not limited to the Group's shareholders, directors, employees, business partners, customers and suppliers.

The following table sets out the movements of the Company's share options during the six months ended 30 September 2009:

				Number of the underlying shares			
Eligible person	**Date of grant**	**Exercise period**	**Exercise price** *HK$*	**Outstanding as at 1.4.2009**	**Granted during the period**	**Exercised during the period**	**Outstanding as at 30.9.2009**
Directors	23.1.2009	23.1.2009 to 22.1.2019	0.498	5,873,270	–	(451,790)	5,421,480
	20.7.2009	20.7.2009 to 19.7.2019	1.510	–	4,800,000	–	4,800,000
				5,873,270	4,800,000	(451,790)	10,221,480
Employees	23.1.2009	23.1.2009 to 22.1.2019	0.498	1,003,580	–	(1,003,580)	–
	20.7.2009	20.7.2009 to 19.7.2019	1.510	–	4,000,000	–	4,000,000
				1,003,580	4,000,000	(1,003,580)	4,000,000
Consultants	20.7.2009	20.7.2009 to 19.7.2019	1.510	–	300,000	–	300,000
				6,876,850	9,100,000	(1,455,370)	14,521,480

Other Information

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "**Code Provision**") stipulated in Appendix 14 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") throughout the Period, with deviations from A.2.1 and A.4.1 of the Code Provision as summaries below.

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

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

The current corporate governance practice of the Company will be reviewed and updated in a timely manner in order to comply with Code Provision.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

Other Information

AUDIT COMMITTEE

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

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

REMUNERATION COMMITTEE

As at the date this report, the Remuneration Committee of the Company comprises two executive directors, namely, Dr. Wong, Kennedy Ying Ho and Mr. Chui Chuen Shun, and three independent non-executive directors, namely, Mr. Fan, Anthony Ren Da, Ms. Estella Yi Kum Ng and Mr. Wong Kam Wing. The major roles and functions of the Remuneration Committee are to formulate remuneration policy and to determine the remuneration of the Directors.

NOMINATION COMMITTEE

At a Board meeting held during the Period, the Board resolved to set up a Nomination Committee with Dr. Wong, Kennedy Ying Ho, Mr. Yin Richard Yingneng, Ms. Estella Yi Kum Ng, Mr. Fan, Anthony Ren Da and Mr. Wong Kam Wing being the members of the Committee and Mr. Yin Richard Yingneng being the Chairman of the Committee.

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

Hong Kong, 21 December 2009

Report on Review of Interim Financial Information

To the Board of Directors of
HONG KONG RESOURCES HOLDINGS COMPANY LIMITED
(Incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 15 to 34, which comprise the condensed consolidated statement of financial position of HONG KONG RESOURCES HOLDINGS COMPANY LIMITED (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") as at 30 September 2009 and the related condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month then ended and certain explanatory notes. The Main Board Listing Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "*Interim Financial Reporting*" ("**HKAS 34**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). The directors of the Company are responsible for the preparation and presentation of the interim financial information in accordance with HKAS 34.

Our responsibility is to express a conclusion on the interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*" issued by the HKICPA. A review of interim financial information consists of making enquires, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, at all material respects, in accordance with HKAS 34.

RAY W.H. CHAN & CO.
Certified Public Accountants
12/F., Bel Trade Commercial Building
1-3 Burrows Street
Wanchai, Hong Kong

Hong Kong, 21 December 2009

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2009

	Notes	Unaudited Six months ended 30 September 2009 HK$'000	2008 HK$'000
Turnover	5	**314,760**	76,010
Cost of sales		**(236,286)**	(75,490)
Gross profit		**78,474**	520
Other income		**2,404**	483
Selling expenses		**(38,573)**	–
General and administrative expenses		**(30,837)**	(1,359)
Discount on acquisition of business	17	**197,844**	–
Share-based payments	16	**(5,253)**	–
Gain on disposal of subsidiaries		**–**	344,714
Loss on debt restructuring		**–**	(34,905)
Restructuring costs		**–**	(12,145)
Other operating expenses		**(3,093)**	(189)
Profit from operations		**200,966**	297,119
Finance costs		**(2,443)**	(401)
Profit before taxation	6	**198,523**	296,718
Taxation	7	**(5,479)**	(48)
Profit for the period		**193,044**	296,670
Other comprehensive income:			
Gain on deemed disposal of interests in a subsidiary		**13,962**	–
Total comprehensive income for the period		**207,006**	296,670
Profit for the period attributable to:			
Equity holders of the Company		**108,667**	296,670
Non-controlling interests		**84,377**	–
		193,044	296,670
Total comprehensive income for the period attributable to:			
Equity holders of the Company		**122,629**	296,670
Non-controlling interests		**84,377**	–
		207,006	296,670
Dividends	8	**–**	–
Earnings per share	9		
Basic		**HK$0.19**	HK$5.71
Diluted		**HK$0.07**	HK$5.71

Condensed Consolidated Statement of Financial Position

At 30 September 2009

	Notes	Unaudited 30 September 2009 HK$'000	Audited 31 March 2009 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	10	31,312	438
Deposit for acquisition		–	101,686
Intangible assets	11	179,605	–
		210,917	102,124
Current assets			
Inventories		726,470	1,147
Trade and other receivables	12	130,832	280
Bank balances and cash		49,177	115,803
		906,479	117,230
Current liabilities			
Trade and other payables	13	232,496	3,566
Bank and other borrowings	14	284,818	–
Tax payables		20,209	30
		537,523	3,596
Net current assets		368,956	113,634
Total assets less current liabilities		579,873	215,758
Non-current liability			
Deferred tax liabilities		47,773	–
Net assets		532,100	215,758
CAPITAL AND RESERVES			
Share capital	15	16,428	16,014
Reserves		343,055	166,842
Equity attributable to equity holders of the Company		359,483	182,856
Non-controlling interests		172,617	32,902
Total equity		532,100	215,758

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2009

	Attributable to equity holder of the Company								
	Share capital HK$'000	Share premium HK$'000	Share option reserve HK$'000	Special reserve HK$'000	Other reserve HK$'000	Accum. losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 April 2008 (Audited)	49,790	35,889	1,200	33,706	–	(480,548)	(359,963)	–	(359,963)
Profit for the period	–	–	–	–	–	296,670	296,670	–	296,670
Total comprehensive income for the period	–	–	–	–	–	296,670	296,670	–	296,670
Lapse of share options	–	–	(1,200)	–	–	1,200	–	–	–
Capital reduction	(49,292)	–	–	–	–	49,292	–	–	–
Reduction in share premium account and special reserve account	–	(35,889)	–	(33,706)	–	69,595	–	–	–
Issue of ordinary shares	4,020	45,960	–	–	–	–	49,980	–	49,980
Issue of preference shares	10,710	139,230	–	–	–	–	149,940	–	149,940
At 30 September 2008 (Unaudited)	15,228	185,190	–	–	–	(63,791)	136,627	–	136,627

	Attributable to equity holder of the Company								
	Share capital ***HK$'000***	**Share premium** ***HK$'000***	**Share option reserve** ***HK$'000***	**Special reserve** ***HK$'000***	**Other reserve** ***HK$'000*** ***Note***	**Accum. (losses) profits** ***HK$'000***	**Total** ***HK$'000***	**Non-controlling interests** ***HK$'000***	**Total equity** ***HK$'000***
At 1 April 2009 (Audited)	**16,014**	**248,724**	**2,915**	**–**	**–**	**(84,797)**	**182,856**	**32,902**	**215,758**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**108,667**	**108,667**	**84,377**	**193,044**
Gain on deemed disposal of interests in a subsidiary	**–**	**–**	**–**	**–**	**13,962**	**–**	**13,962**	**(13,962)**	**–**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**13,962**	**108,667**	**122,629**	**70,415**	**193,044**
Issue of ordinary shares	**400**	**47,621**	**–**	**–**	**–**	**–**	**48,021**	**–**	**48,021**
Equity-settled share-based transaction	**–**	**–**	**5,253**	**–**	**–**	**–**	**5,253**	**–**	**5,253**
Exercise of share options	**14**	**1,327**	**(617)**	**–**	**–**	**–**	**724**	**–**	**724**
Contribution from non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**69,300**	**69,300**
At 30 September 2009 (Unaudited)	**16,428**	**297,672**	**7,551**	**–**	**13,962**	**23,870**	**359,483**	**172,617**	**532,100**

Note:

The other reserve represents the difference between the fair value of the consideration paid and the relevant share of carrying value of the subsidiaries' net assets acquired from the non-controlling interests.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 September 2009

		Unaudited	
		Six months ended 30 September	
		2009	2008
	Note	***HK$'000***	*HK$'000*
Net cash (used in) generated from operating activities		**(66,445)**	367
Net cash (used in) investing activities:			
Acquisition of business	*17*	**(397,499)**	–
Purchase of property, plant and equipment		**(3,403)**	(36)
Cash transferred to the creditors scheme on disposal of subsidiaries		**–**	(72,073)
Other investing activities		**–**	483
		(400,902)	(71,626)
Net cash generated from financing activities:			
New bank and other loans raised		**294,818**	–
Proceeds from the issue of shares		**48,746**	199,920
Contribution from non-controlling interests		**69,300**	–
Payments for restructuring costs		**–**	(12,145)
Repayment of bank and other borrowings		**(10,000)**	(5,694)
Other financing activities (net)		**(2,143)**	(401)
		400,721	181,680
Net (decrease) increase in cash and cash equivalents		**(66,626)**	110,421
Cash and cash equivalents at beginning of the period		**115,803**	73,087
Cash and cash equivalents at end of the period, represented by bank balances and cash		**49,177**	183,508

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2009

1. GENERAL AND BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and with Hong Kong Accounting Standard ("**HKAS**") 34, *Interim Financial Reporting.*

These condensed consolidated financial statements should be read in conjunction with the Group's audited consolidated financial statements for the year ended 31 March 2009.

2. SIGNIFICANT EVENTS

On 23 December 2008, China Gold Silver Group Company Limited ("**China Gold Silver**"), a non-wholly owned subsidiary of the Company, entered into a conditional restructuring agreement (the "**Agreement**") with Mr. Liu Wang Zhi ("**Mr. Liu**"), 3D-GOLD Jewellery Holdings Limited (Provisional Liquidators Appointed) (Subject to Scheme of Arrangement) ("**3D-GOLD (PLA)**") and its provisional liquidators, for the acquisition of the restructured group of 3D-GOLD (PLA) and its subsidiaries or its business ("**Restructured Group**" as defined in the Company's circular dated 12 June 2009) at a cash consideration as detailed in note 17.

On 5 May 2009, China Gold Silver and Ace Captain Investments Limited ("**Ace Captain**"), a company wholly-owned by Mr. Martin Lee Ka Shing, entered into a subscription agreement that Ace Captain conditionally agreed to subscribe for 333 new shares of China Gold Silver at an aggregate consideration of HK$33,300,000. The subscription was completed on 4 June 2009, and, accordingly, Ace Captain owns a 10% interest in China Gold Silver while the Group and Mr. Liu own a 60% and a 30% stake in China Gold Silver, respectively.

The Restructured Group is principally engaged in the retailing of gold products, other precious metal products and jewellery products in Hong Kong, Macau and the People's Republic of China (the "**PRC**"). The acquisition of the Restructured Group (the "**3D-GOLD Acquisition**") was completed on 28 July 2009.

The Agreement and the transaction contemplated thereunder was approved by the shareholders of the Company at a special general meeting held on 29 June 2009, details of which are set out in the Company's circular dated 12 June 2009.

The assets and liabilities of the Restructured Group upon completion of the 3D-GOLD Acquisition are set out in note 17.

On 28 July 2009, China Gold Silver, 3D-GOLD (PLA), and its provisional liquidators entered into an exclusivity agreement (the "**Exclusivity Agreement**") for the period of ninety days, China Gold Silver has the exclusive rights relating to the acquisition of a controlling shareholder interest in 3D-GOLD (PLA). During the period, China Gold Silver shall use its best endeavors to prepare and submit the resumption proposal to the Stock Exchange pursuant to the terms indicated in the Exclusivity Agreement. Details of the above are set out in the Company's announcement dated 29 July 2009. Pursuant to the Exclusivity Agreement, a resumption proposal was submitted to the Stock Exchange in October 2009.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2009

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain intangible assets and inventories are measured at fair value, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 March 2009. In addition, the Group newly adopted the following accounting policies upon completion of the 3D-GOLD Acquisition during the Period.

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under Hong Kong Financial Reporting Standard ("**HKFRS**") 3 *Business Combinations* are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of non-controlling interests in the acquiree is initially measured at the non-controlling interests' proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Changes in equity interest in subsidiaries

The Group regards the acquisition/disposal of partial equity interest of subsidiaries from non-controlling interests without changes in control as transactions with equity owners of the Group. When additional equity interest in a subsidiary is acquired, any difference between the consideration paid and the relevant share of the carrying value of the subsidiary's net assets acquired is recorded in equity (other reserve). When partial equity interest in subsidiary is disposed to non-controlling interests, any difference between the proceeds received and the relevant share of non-controlling interests is also recorded in equity (other reserve).

Revenue recognition

Franchise fee income is recognised on a straight-line basis over the franchise period.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2009

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Intangible assets

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Customer Loyalty Program

Customer award credits of the Group where it will be accounted for as a separately identifiable component of the sales transactions. The fair value of the consideration received or receivable is allocated between the award credits and the other components of the sale. The consideration allocated to the award credits is measured by reference to their fair values i.e. the amount for which the award credits could be sold separately.

4. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations ("**new or revised HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), which are effective for the Group's financial year beginning on 1 April 2009.

HKAS 1 (Revised 2007) has introduced a number of terminology changes, including revised titles for the condensed consolidated financial statements, and has resulted in a number of changes in presentation and disclosure. HKFRS 8 is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor standard, HKAS 14 *Segment Reporting*, required the identification of two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14 (see note 5). The adoption of the new and revised HKFRSs has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2009

4. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

The Group has not early applied new and revised standards, amendments or interpretations that have been issued but are not yet effective. The adoption of HKFRS 3 (Revised 2008) may affect the Group's accounting for business combinations for which the acquisition dates are on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised 2008) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary that do not result in loss of control of the subsidiary. Changes in the Group's ownership interest that do not result in loss of control of the subsidiary will be accounted for as equity transactions. The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

5. SEGMENT INFORMATION

The Group has adopted HKFRS 8 *Operating Segments* with effect from 1 April 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to segments and to assess their performance. In contrast, the predecessor standard (HKAS 14, *Segment Reporting*) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. In the past, the Group was only engaged in the trading of gold salt, precious metals and electroplating chemicals in Hong Kong and accordingly, no segmental information is presented. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

On the completion of the 3D-GOLD Acquisition as detailed in note 2, the Group's reportable segments under HKFRS 8 are therefore as follows:

a. Trading of gold salt, precious metal and electroplating chemicals;
b. Retail operation in Hong Kong and Macau; and
c. Retail operation in the PRC

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2009

5. SEGMENT INFORMATION (CONTINUED)

Information regarding the above segments is reported below.

For the six months ended 30 September 2009 (unaudited)

	Trading of gold salt, precious metals & electroplating chemicals *HK$'000*	Retail operation in Hong Kong & Macau *HK$'000*	Retail operation in the PRC *HK$'000*	Consolidated *HK$'000*
REVENUE				
External sales	12,714	31,559	270,487	314,760
RESULT				
Segment results	437	(3,374)	27,359	24,422
Unallocated corporate expenses				(16,106)
Discount on acquisition of business				197,844
Other income				59
Share-based payments				(5,253)
Finance costs				(2,443)
Profit before taxation				198,523
Taxation				(5,479)
Profit for the period				193,044

Segment result represent the profit earned by each segment without allocation of central administration costs, directors' salaries, investment revenue and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

The Group was only engaged in the trading of gold salt, precious metal and electroplating chemicals in Hong Kong for the six months ended 30 September 2008, and accordingly no segmental information is presented.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2009

6. PROFIT BEFORE TAXATION

	Unaudited Six months ended 30 September	
	2009	2008
	HK$'000	*HK$'000*
Profit before taxation arrived at after charging:		
Amortisation of lease premium on land	**–**	6
Depreciation of property, plant and equipment	**3,288**	287
Amortisation of intangible assets	**1,003**	–
Interest on bank and other borrowings wholly repayable within five years	**1,844**	401

7. TAXATION

	Unaudited Six months ended 30 September	
	2009	2008
	HK$'000	*HK$'000*
Profits tax		
Hong Kong profits tax	**70**	48
PRC enterprise income tax	**5,409**	–
	5,479	48

Hong Kong

Hong Kong Profits Tax is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used is 16.5% for the periods under review.

PRC

Pursuant to Income Tax Law of the PRC, 3D-GOLD Enterprise Development (Shenzhen) Company Limited, a subsidiary of the Company, is entitled to a preferential income tax rate of 18%. According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprises Income Tax (Guofa [2007] No. 39), the tax rate of the entity that previously enjoyed the tax preferential treatment is to be increased progressively to 25% over a five year period to 2012.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2009

8. DIVIDENDS

The Board recommends the payment of an interim dividend of HK0.70 cents per share *(2008: Nil)* for the six months ended 30 September 2009 to both the holders of ordinary shares and preference shares of the Company, resulting in a total dividend payment of HK$15,741,814 *(2008: Nil).*

The interim dividend to both the holders of ordinary shares and preference shares shall be paid out of the distributable reserve of the Company. The dividends recommended have been approved by the Board after the balance sheet date. Accordingly, the interim dividends to the ordinary shares and preference shares have not been recognized as a liability at the balance sheet date.

Pursuant to Bye-law 6 of the Company, the proposed dividend is subject to passing of a special resolution by the shareholders at the special general meeting of the Company, which shall be held on 3 February 2010.

The proposed dividend shall be paid to holders of ordinary shares whose names appear on the Company's register of members (ordinary shares) on 3 February 2010 and to holders of preference shares whose names appear on the Company's register of members (preference shares) on 30 September 2009.

For the ordinary shares, the register of members will be closed from 1 February 2010 to 3 February 2010, both days inclusive, during which period no transfer of ordinary shares will be registered. To qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrars, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not be later than 4:00 p.m. on 29 January 2010. The proposed interim dividend is expected to be paid on or about 24 February 2010 following approval at the aforesaid special general meeting.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2009

9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

The earnings per share is calculated on profit attributable to equity holders of the Company of approximately HK$104,918,000 *(2008: HK$296,670,000)*, net of preference share dividend of approximately HK$3,749,000 *(2008: Nil)*.

	Unaudited Six months ended 30 September	
	2009 **Number of** ***'000***	2008 Number of *'000*
Number of ordinary shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**560,261**	51,987
Effect of dilutive potential ordinary shares		
– Share options	**7,004**	N/A
– Preference shares *(Note)*	**1,071,000**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,638,265**	51,987

Note:

The computation of diluted earnings per share does not assume the conversion of preference shares for the six months ended 30 September 2008 since the dividends accumulated for the period per ordinary share obtainable on conversion exceeds the basic earnings per share for the same period.

10. ADDITION TO PROPERTY PLANT AND EQUIPMENT

During the Period, the Group has acquired property, plant and equipment of HK$30,761,000 as a result of the completion of the 3D-GOLD Acquisition as detailed in note 17.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2009

11. INTANGIBLE ASSETS

	Unaudited
	HK$'000
COST	
Arising on acquisition of business and at 30 September 2009	180,608
AMORTISATION	
Provided for the period and at 30 September 2009	(1,003)
CARRYING AMOUNT	
As at 30 September 2009	179,605

The trademarks are renewable every 10 years at minimal cost. The Directors of the Company are of the opinion that the Group has the intention and ability to renew the trademarks continuously. For the purpose of the 3D-GOLD Acquisition, the management of the Group considered that the useful life of the trademarks is to be at least 30 years, where the trademarks are expected to contribute to the Group's net cash inflows during these time and accordingly, the trademarks are amortised on a straight-line basis over 30 years.

12. TRADE AND OTHER RECEIVABLES

The Group allows a credit period normally ranging 30 to 90 days to its trade customers.

	Unaudited 30 September 2009	Audited 31 March 2009
	HK$'000	*HK$'000*
Trade receivables	**98,855**	–
Other receivables	**31,977**	280
	130,832	280
The aged analysis of trade receivables is as follows:		
0 to 90 days	**96,112**	–
Over 90 days	**2,743**	–
	98,855	–

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2009

13. TRADE AND OTHER PAYABLES

	Unaudited 30 September 2009 HK$'000	Audited 31 March 2009 HK$'000
Trade payables	**152,354**	23
Other payables	**80,142**	3,543
	232,496	3,566
The aged analysis of trade payables is as follows:		
0 to 90 days	**151,497**	23
Over 90 days	**857**	–
	152,354	23

Included in other payables is an amount of approximately HK$35,477,000 *(31 March 2009: Nil)* deposit and receipt in advance from the franchisees of the Group.

14. BANK AND OTHER BORROWINGS

	Notes	Unaudited 30 September 2009 HK$'000	Audited 31 March 2009 HK$'000
Bank borrowings	*a*	**120,000**	–
Other borrowings	*b*	**164,818**	–
		284,818	–

Notes:

(a) During the Period, the Group obtained bank loan of HK$120 million. The bank loan is unsecured, has contracted interest rates of 3% per annum and repayable in July 2010. The proceeds were used to finance the 3D-GOLD Acquisition.

The loan was jointly guaranteed by the Company, Mr. Liu and Ace Captain in proportion to their interest in China Gold Silver. In addition, pursuant to the loan agreement, Dr. Wong, Kennedy Ying Ho, a substantial shareholder and the Chairman of the Company, is obliged to maintain (i) his chairmanship in the Company and (ii) his shareholding of not less than 30% in the Company.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2009

14. BANK AND OTHER BORROWINGS (CONTINUED)

(b) Particulars of the other borrowings are as follows:

	Notes	Unaudited 30 September 2009 HK$'000	Audited 31 March 2009 HK$'000
Company associated with Mr. Liu	i	56,818	–
Non-controlling interests	i	8,000	–
Finwood Limited	ii	50,000	–
Others	iii	50,000	–
		164,818	–

Notes:

(i) Amounts are unsecured, repayable on demand and interest free.

(ii) Finwood Limited is a company owned as to 100% by the spouse of Dr. Wong, Kennedy Ying Ho. Amounts are unsecured, repayable on demand and interest bearing at prevailing market rate, with the effective interests of 5% per annum.

(iii) Amounts are unsecured, repayable on demand and interest bearing at prevailing market rate, with range of effective interests of 0.5% to 5% per annum. The amounts have been fully settled subsequent to the balance sheet date.

15. SHARE CAPITAL

	Notes	Number of '000	Amount HK$'000
Authorised:			
At 1 April 2009 and 30 September 2009			
Ordinary shares of HK$0.01 each		4,000,000	40,000
Preference shares of HK$0.01 each		3,000,000	30,000
		7,000,000	70,000
Ordinary shares issued and fully paid:			
At 1 April 2009			
Ordinary shares of HK$0.01 each		530,347	5,304
Exercise of share options	a	1,455	14
Issue of shares	b	40,000	400
At 30 September 2009			
Ordinary shares of HK$0.01 each		571,802	5,718
Preference shares issued and fully paid:			
At 1 April 2009 and 30 September 2009			
Preference shares of HK$0.01 each		1,071,000	10,710

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2009

15. SHARE CAPITAL (CONTINUED)

The preference share shall entitle the holder thereof the right to convert one preference share into one fully-paid ordinary share of the Company at any time after one year from the date of issuance of the preference shares. The preference shares are not redeemable and not bear any voting right.

Each preference share shall confer on its holder the right to be paid out of the profits of the Company available for dividend and resolved to be distributable pari passu with other new shares, a fixed cumulative preferential dividend at the rate of 5% per annum on the paid up value of each preference shares. The preference shares rank in priority to the ordinary shareholders as to a return of the nominal amount paid up on the preference shares and thereafter ranks pari passu with the ordinary shares on liquidation.

The undeclared cumulative preferential share dividend as at 30 September 2009 amounted to HK$7,497,000.

Notes:

(a) During the Period, the Company issued 1,455,370 ordinary shares of HK$0.01 each at cash consideration of HK$0.498 per share pursuant to the exercise of the share options granted.

(b) On 8 May 2009, a placing agreement and a subscription agreement were entered into among Perfect Ace Limited ("**Perfect Ace**"), the Company and a placing agent ("**Placing Agent**") under which (i) Perfect Ace has appointed the Placing Agent to place 40,000,000 ordinary shares of HK$0.01 each ("**Placing Shares**") in the Company at a price of HK$1.30 per Placing Share; and (ii) Perfect Ace subscribed for 40,000,000 new ordinary shares of HK$0.01 each ("**Subscription Shares**") in the Company at a price of HK$1.30 per Subscription Share. The placing price of HK$1.30 represented a discount of 7.14% to the closing price of HK$1.40 per share as quoted on the Stock Exchange on 7 May 2009. The Subscription Shares were issued pursuant to the general mandate granted to the Directors of the Company on 24 April 2009. The net proceeds of approximately HK$48 million is used to fund part of the consideration of the 3D-GOLD Acquisition. The transaction was completed on 21 May 2009.

Perfect Ace is a company owned as to 96.11% by Dr. Wong, Kennedy Ying Ho, a substantial shareholder and the Chairman of the Company and as to 3.89% by Mr. Chui Chuen Shun, an executive director of the Company.

Details of the above are set out in the Company's announcement dated 8 May 2009.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2009

16. SHARE-BASED PAYMENTS

The Company adopted a share option scheme on 23 January 2009 for the purpose of providing incentives or rewards to eligible persons for their contribution or potential contribution to the Group. Eligible persons including but not limited to the Group's shareholders, directors, employees, business partners, customers and suppliers.

Details of the share options outstanding during the Period are as follows:

	Number of share options	**Weighted average exercise price**
	'000	*HK$*
Outstanding at 1 April 2009	6,876,850	0.498
Granted during the Period	9,100,000	1.510
Exercised during the Period	(1,455,370)	0.498
Outstanding at 30 September 2009	14,521,480	1.132

The fair value of the options determined at the date of grant using Binomial option pricing model was approximately HK$5,253,000 and recognised in the condensed consolidated statement of comprehensive income for the Period.

The following key assumptions were used in assessing the fair value of the options granted for the Period.

Date of grant	20 July 2009
Number of options granted	9,100,000
Grant date share price	HK$1.510
Fair value per share option	HK$0.577
Exercise price	HK$1.510
Risk-free rate	2.45%
Nature of share options	Call
Life of the options	10 years
Expected volatility	151.69%
Expected dividend yield	0%

17. ACQUISITION OF BUSINESS

As explained in note 2, upon completion of the 3D-GOLD Acquisition, the Group acquired the Restructured Group at a cash consideration of approximately HK$538.1 million, subject to adjustments. Together with the cost directly attributable to the acquisition of approximately HK$6.7 million, the fair value of the consideration was approximately HK$544.8 million. This transaction has been accounted for using the purchase method of accounting.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2009

17. ACQUISITION OF BUSINESS (CONTINUED)

The net assets acquired in the transaction are as follows:

	Carrying amount immediately before the combination *HK$'000*	Provisional fair value adjustments *HK$'000*	Provisional fair value *HK$'000*
Net assets acquired			
Property, plant and equipment	30,761	–	30,761
Intangible assets	–	180,608	180,608
Inventories	653,020	14,056	667,076
Trade and other receivables	88,842	–	88,842
Cash and cash equivalents	45,619	–	45,619
Deferred tax assets (liabilities)	893	(48,666)	(47,773)
Trade and other payables	(206,712)	–	(206,712)
Tax payables	(15,773)	–	(15,773)
	596,650	145,998	742,648
Discount on acquisition			(197,844)
Consideration			544,804
Represented by:			
Cash consideration			538,100
Cost to acquisition			6,704
			544,804
Satisfied by:			
Cash			443,118
Deposit for acquisition			101,686
			544,804
Net cash outflow arising on acquisition:			
Cash consideration paid			(443,118)
Bank balance and cash acquired			45,619
			(397,499)

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2009

17. ACQUISITION OF BUSINESS (CONTINUED)

The initial accounting for the above acquisition has been determined provisionally, awaiting the receipt of professional valuation in relation to certain underlying assets and liabilities of the acquired business.

The total consideration of approximately HK$538.1 million is subject to adjustments on the inventory as defined in the Agreement and disclosed in the circular to the shareholders of the Company dated 12 June 2009. Currently, the Company is in discussion with the provisional liquidators of 3D-GOLD (PLA) in finalizing the amount. In the opinion of the directors of the Company, such amount cannot be measured reliably at 30 September 2009 and accordingly, no provision is made.

The completion of 3D-GOLD Acquisition has contributed approximately HK$302 million and approximately HK$211 million to the Group's turnover and profit for the period between the date of acquisition and the balance sheet date.

The consideration for the 3D-GOLD Acquisition was determined based on the value of the business, assets, goodwill and inventories, and certain discount to acquisition from the provisional liquidators of 3D-GOLD (PLA). The discount on acquisition of approximately HK$198 million were mainly attributable to the (i) fair value related to the trademark for 3D-GOLD, (ii) the fair value of the inventories held on the completion date, and (iii) the tender was made to the provisional liquidators of 3D-GOLD (PLA) during the financial tsunami in December 2008.

The directors of the Company are of the view that it is impracticable to disclose the revenue and the result of the acquired business for the period from 1 April 2009 to 30 September 2009 as if the 3D-GOLD Acquisition had been effected at the 1 April 2009 since such financial information was not provided by the vendor.

18. CONTINGENCIES AND COMMITMENTS

Capital Expenditure Commitments

Pursuant to the Exclusivity Agreement as detailed in note 2, China Gold Silver has exclusive rights relating to the acquisition of a controlling shareholder interest in 3D-GOLD (PLA). The consideration contracted for but not provided in the condensed consolidated financial statements in respect of this acquisition is HK$70,000,000.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2009

19. SUBSEQUENT EVENTS

Subsequent to 30 September 2009, the Group had entered into the following transactions:

(a) On 23 October 2009, a placing agreement and a subscription agreement were entered into among Perfect Ace, the Company and a placing agent ("**Placing Agent I**") under which (i) Perfect Ace has appointed the Placing Agent I to place 80,000,000 ordinary shares of HK$0.01 each ("**Placing Shares I**") in the Company at a price of HK$1.63 per Placing Share I; and (ii) Perfect Ace subscribed for 80,000,000 new ordinary shares of HK$0.01 each ("**Subscription Shares I**") in the Company at a price of HK$1.63 per Subscription Share I. The issued price of HK$1.63 represented a discount of 8.94% to the closing price of HK$1.79 per share quoted on the Stock Exchange on 23 October 2009. The Subscription Shares I were issued pursuant to the general mandate granted to the Directors of the Company on 14 August 2009. The net proceeds of approximately HK$125 million is intended to be used for general working capital purpose, in particular, towards the opening of retail shops in Hong Kong and Macau and the purchase of stock and inventory for 3D-GOLD retail operations. The transaction was completed on 6 November 2009.

Details of the above are set out in the Company's announcements dated 27 October 2009, 29 October 2009 and 6 November 2009.

(b) Upto the date of the report, 521,510,000 preference shares of HK$0.01 each were converted into ordinary shares of HK$0.01 each of the Company.

(c) Upto the date of the report, 4,517,900 ordinary shares of HK$0.01 each were issued at HK$0.498 each pursuant to the exercise of the share options.

(d) On 22 October 2009, 3D-GOLD (PRC Holding) Company Limited ("**3D-GOLD PRC**"), a subsidiary of the Company, entered into a cooperation agreement ("**Cooperation Agreement**") with Beijing Jin Gang Zhi Zun Shang Mao Company Limited ("**Beijing JinGang**") as a result of Beijing JinGang having entered into the gold consignment agreement with the Agricultural Bank of China Limited ("**ABC**"), pursuant to which Beijing JinGang has appointed ABC as its principal agent in the PRC for the sale of physical gold, including gold bullion bars, gold ornaments and gold souvenirs with investment value, under the trademark of 3D-GOLD.

Pursuant to the Cooperation Agreement, Beijing JinGang has appointed 3D-GOLD PRC as the exclusive agent where 3D-GOLD PRC is responsible for the processing of gold products under the trademark of 3D-GOLD and to provide support to Beijing JinGang for it to render quality services to ABC.

Details of the above are set out in the Company's announcement dated 22 October 2009.