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CHAOYUE GROUP LIMITED

超越集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 00147)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

The board of directors (the “Board” or the “Directors”) of Chaoyue Group Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2010 (the “Current Period”), together with the comparative figures, as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Unaudited	
		Six months ended 30 September	
	NOTES	2010	2009
		HK\$'000	HK\$'000
			(restated)
Continuing operations			
Revenue	3	15,747	42,173
Cost of sales		(22,981)	(21,469)
Gross (loss) profit		(7,234)	20,704
Other income, gains and losses	4	2,723	5,706
Distribution and selling expenses		(6,143)	(14,223)
Administrative and other expenses		(88,698)	(32,577)
Finance costs	5	(553)	(2,786)
Impairment loss on property, plant and equipment		(63,302)	–
Impairment loss on intangible assets		(23,516)	(55,094)
Impairment loss on goodwill		(27,085)	–
Changes in fair value of derivative financial instruments		–	(4,324,025)
Changes in fair value of derivative warrant liabilities		–	(2,838,197)
Loss before taxation		(213,808)	(7,240,492)
Income tax credit	6	6,456	15,427
Loss for the period from continuing operations	8	(207,352)	(7,225,065)

Unaudited
Six months ended 30 September

	<i>NOTES</i>	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i> (restated)
Discontinued operation			
Loss for the period from discontinued operation	7	—	(57)
Loss for the period		<u>(207,352)</u>	<u>(7,225,122)</u>
Other comprehensive income for the period			
Exchange differences on translation		<u>(721)</u>	<u>3</u>
Total comprehensive expense for the period		<u>(208,073)</u>	<u>(7,225,119)</u>
Loss for the period attributable to:			
Owners of the Company		<u>(206,372)</u>	<u>(7,225,122)</u>
Non-controlling interests		<u>(980)</u>	<u>—</u>
		<u>(207,352)</u>	<u>(7,225,122)</u>
Total comprehensive expense attributable to:			
Owners of the Company		<u>(207,159)</u>	<u>(7,225,119)</u>
Non-controlling interests		<u>(914)</u>	<u>—</u>
		<u>(208,073)</u>	<u>(7,225,119)</u>
Loss per share – Basic and diluted			
From continuing and discontinued operations	10	<u>HK(1.10) cents</u>	<u>HK(61.69) cents</u>
From continuing operations		<u>HK(1.10) cents</u>	<u>HK(61.69) cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>NOTES</i>	Unaudited as at 30 September 2010 <i>HK\$'000</i>	Audited as at 31 March 2010 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		23,262	95,491
Intangible assets		138,598	173,851
Goodwill		–	27,085
Receivables in respect of sales of direct drinking water purification machines		–	27,680
		161,860	324,107
CURRENT ASSETS			
Inventories		1,697	1,948
Amounts due from customers for contract work		17,197	11,296
Trade and other receivables	11	11,117	51,274
Bank balances and cash		69,627	83,618
		99,638	148,136
CURRENT LIABILITIES			
Amounts due to customers for contract work		2,290	2,249
Trade and other payables	12	52,228	46,756
Amount due to a director of a subsidiary		23,806	23,464
Tax payable		2,700	2,769
Borrowings	13	9,265	9,099
Warranty provision		1,771	1,281
Deferred income		7,101	7,238
		99,161	92,856
NET CURRENT ASSETS		477	55,280
TOTAL ASSETS LESS CURRENT LIABILITIES		162,337	379,387
NON-CURRENT LIABILITIES			
Deferred income		20,798	23,852
Deferred taxation		–	6,750
		20,798	30,602
		141,539	348,785
CAPITAL AND RESERVES			
Share capital		18,824	18,824
Reserves		117,743	324,075
Equity attributable to owners of the Company		136,567	342,899
Non-controlling interests		4,972	5,886
		141,539	348,785

Notes:

1. 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 on The Stock Exchange of Hong Kong Limited and with the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The functional currency of the Company is Renminbi (“RMB”) as the Group’s operation is mainly in the People’s Republic of China (the “PRC”). The condensed consolidated financial statements are presented in Hong Kong Dollars (“HKD”). The directors consider that HKD is the appropriate presentation currency as the management of the Company controls and monitors the performance and financial position of the Group by using HKD.

2. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost convention, except for certain financial instruments, which are measured at fair values, 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 financial statements for the year ended 31 March 2010, except for as below.

In the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by the HKICPA.

The Group applies HKFRS 3 (Revised) *Business Combinations* prospectively to business combinations for which the acquisition date is on or after 1 April 2010. The requirements in HKAS 27 (Revised) *Consolidated and Separate Financial Statements* in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 April 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no material impact on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

The application of the other new and revised HKFRSs had no material effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

The Group has not early applied the new and revised standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of those new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. REVENUE AND SEGMENT INFORMATION

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

	Six months ended 30 September	
	2010 HK\$'000 (unaudited)	2009 HK\$'000 (unaudited)
Continuing operations		
Sale of goods	2,906	11,987
Contract revenue	8,242	5,774
Rental income	3,750	24,027
Royalty fee income	849	385
	<u>15,747</u>	<u>42,173</u>

The Group's operating segments, based on information reported to the chief operating decision maker for the purposes of revenue allocation and performance assessment, are as follows:

Continuing operations

- Direct drinking water – Lease of direct drinking water purification machines and royalty income for use of the Group's brand name
- Purification equipment – Manufacturing and sales of air purification and water purification equipments
- Environmental engineering – Construction and installation of air purification and sewage treatment system
- Mining – Exploration of gold and copper

Discontinued operation

- Garment – The Group was involved in manufacturing and sales of garment business, which was reported as a separate segment under HKAS 14 Segment Reporting in previous period. This operation was discontinued with effect from July 2009 (note 7).

Segment results represent the results from each segment without allocation of central administration costs and directors' salaries, some items of other income, finance costs, changes in fair value of derivative financial instruments, changes in fair value of derivative warrant liabilities. This is the measure reported to the chief operation decision maker for the purposes of resource allocation and performance assessment.

3. REVENUE AND SEGMENT INFORMATION – *continued*

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

Six months ended 30 September 2010

	Continuing operations					Total HK\$'000
	Direct drinking water HK\$'000	Purification equipment HK\$'000	Environmental engineering HK\$'000	Mining HK\$'000	Elimination HK\$'000	
REVENUE						
External sales	4,599	2,906	8,242	–	–	15,747
RESULT						
Segment loss	(177,937)	(3,971)	(363)	(13,128)	–	(195,399)
Unallocated income						92
Unallocated corporate expenses						(17,948)
Finance costs						(553)
Loss before taxation						(213,808)

Amounts included in the measure of segment loss:

Allowance on bad and doubtful debts	39,153	–	660	–	–	39,813
Impairment loss on advances to suppliers	12,338	–	–	–	–	12,338
Amortisation on intangible assets	3,484	–	–	6,318	–	9,802
Impairment loss on property, plant and equipment	63,302	–	–	–	–	63,302
Impairment loss on intangible assets	23,516	–	–	–	–	23,516
Impairment loss on goodwill	27,085	–	–	–	–	27,085

3. REVENUE AND SEGMENT INFORMATION – *continued*

Six months ended 30 September 2009

	Continuing operations					Total HK\$'000
	Direct drinking water HK\$'000	Purification equipment HK\$'000	Environmental engineering HK\$'000	Mining HK\$'000	Elimination HK\$'000	
REVENUE						
External sales	24,412	11,987	5,774	–	–	42,173
Inter-segment sales	–	18,945	–	–	(18,945)	–
Total	<u>24,412</u>	<u>30,932</u>	<u>5,774</u>	<u>–</u>	<u>(18,945)</u>	<u>42,173</u>
RESULT						
Segment profit (loss)	<u>(51,942)</u>	<u>(2,643)</u>	<u>(1)</u>	<u>–</u>	<u>171</u>	<u>(54,415)</u>
Unallocated income						114
Unallocated corporate expenses						(21,183)
Finance costs						(2,786)
Changes in fair value of derivative financial instruments						(4,324,025)
Changes in fair value of derivative warrant liabilities						<u>(2,838,197)</u>
Loss before taxation						<u><u>(7,240,492)</u></u>
<i>Amounts included in the measure of segment profit (loss):</i>						
Allowance on bad and doubtful debts	1,784	–	–	–	–	1,784
Amortisation on intangible assets	9,400	–	–	–	–	9,400
Impairment loss on intangible assets	<u>55,094</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>55,094</u>

Note: Inter-segment sales are charged at terms agreed by both parties.

3. REVENUE AND SEGMENT INFORMATION – *continued*

The following is an analysis of the Group's assets by operating segment:

	30 September 2010 HK\$'000 (unaudited)	31 March 2010 HK\$'000 (audited)
ASSETS		
<i>Segment assets</i>		
Direct drinking water	21,227	152,874
Purification equipment	10,632	56,861
Environmental engineering	18,038	25,811
Mining	<u>138,598</u>	<u>146,851</u>
Total segment assets	<u>188,495</u>	<u>382,397</u>
Unallocated assets		
– Bank balance and cash	69,627	83,618
– Others	<u>3,376</u>	<u>6,228</u>
Total unallocated assets	<u>73,003</u>	<u>89,846</u>
Consolidated total assets	<u><u>261,498</u></u>	<u><u>472,243</u></u>

4. OTHER INCOME, GAINS AND LOSSES

	Six months ended 30 September	
	2010 HK\$'000 (unaudited)	2009 HK\$'000 (unaudited)
Continuing operations		
Bank interest income	92	114
Gain on disposal of property, plant and equipment (<i>Note</i>)	–	1,733
Sale of scrap materials	2,514	2,310
Others	<u>117</u>	<u>1,549</u>
	<u><u>2,723</u></u>	<u><u>5,706</u></u>

Note: During the six months ended 30 September 2009, the Group disposed of certain direct drinking water purification machines, which were leased out under operating leases and classified under property, plant and equipment, with carrying amount of approximately HK\$26,874,000 at a consideration of approximately HK\$26,874,000, payable by interest free installments over a period of five years. The present value of the consideration receivable as at 30 September 2009, net of related tax payable, amounted to approximately HK\$20,058,000. Upon the disposal, deferred income amounting to approximately HK\$8,549,000 which represents rental received in advance for the drinking water purification machine from the existing lessees has been released to profit and loss and forms part of the gain on disposal of the assets.

5. FINANCE COSTS

	Six months ended 30 September	
	2010	2009
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Continuing operations		
Interests on convertible bonds	–	2,241
Interest on borrowing wholly repayable within five years	553	545
	<u>553</u>	<u>2,786</u>

6. INCOME TAX CREDIT

	Six months ended 30 September	
	2010	2009
	HK\$'000	HK\$'000
	(unaudited)	(unaudited) (restated)
Continuing operations		
Current tax – PRC Enterprise Income Tax	294	696
Deferred taxation	(6,750)	(16,123)
	<u>(6,456)</u>	<u>(15,427)</u>

No provision for Hong Kong Profits Tax has been made for both periods as the Group has no assessable profit arising in Hong Kong.

The income tax expense is recognised based on management best estimate of the weighted average annual income tax rate expected for full financial year.

The Group's PRC subsidiary, Shanghai Comfort Environment and Science Company Limited ("Shanghai Comfort"), which is registered in Shanghai Pudong New Area and regarded as advanced technology enterprises by local tax bureau. Shanghai Comfort is entitled to the PRC income tax at concessionary rate of 15% from year 2008 to 2010.

The deferred tax credit arises as a result of the amortisation and impairment loss recognised on intangible assets of the Group.

7. DISCONTINUED OPERATION

Due to the continuous adverse operating environment as a result of the economic downturn since the second half of year 2008, the Group had encountered significant difficulties in obtaining orders from customers for its garment business which had ceased to generate meaningful return to the Group. In light of this, the management had resolved to abandon the garment business of the Group and hence had ceased to accept any new garment trading business and have laid off all of the staffs within the garment business in July 2009. As the amount of assets employed in the garment business was not significant, the management did not consider the discontinuation of the garment business would have any material impact on the Group's financial result.

The results of the garment business, which were included in the condensed consolidated statement of comprehensive income, is as follow:

	Six months ended 30 September 2009 HK\$'000 (unaudited)
Other income	98
Administrative and other expenses	(155)
Loss for the period	<u>(57)</u>

8. LOSS FOR THE PERIOD

Loss for the period has been arrived at after charging:

	Six months ended 30 September	
	2010 HK\$'000 (unaudited)	2009 HK\$'000 (unaudited) (restated)
Continuing operations		
Directors' emoluments	906	662
Other staff costs	5,580	10,293
Share – based payment	827	3,016
Other staff retirement benefit scheme contributions	557	1,293
Total staff costs	<u>7,870</u>	<u>15,264</u>
Cost of inventories recognised as expenses	15,087	14,863
Depreciation of property, plant and equipment	10,088	7,686
Amortisation of intangible assets included in administrative and other expenses	9,802	9,400
Allowance on bad and doubtful debts included in administrative and other expenses (Note 11)	39,813	1,784
Impairment loss on advances to suppliers included in administrative and other expenses (Note 11)	12,338	–
	<u>12,338</u>	<u>–</u>

9. DIVIDENDS

No dividends were paid, declared or proposed during the reported period. The directors do not recommend the payment of an interim dividend.

10. LOSS PER SHARE

From continuing and discontinued operations

The calculation of the basic and diluted loss per share for the period attributable to the owners of the Company is based on the following data:

	Six months ended 30 September	
	2010	2009
	HK\$'000	HK\$'000
	(unaudited)	(unaudited) (restated)
Loss		
Loss for the period attributable to owners of the Company for the purpose of loss per share	<u>(206,372)</u>	<u>(7,225,122)</u>
	Six months ended 30 September	
	2010	2009
Number of shares		
Weighted average number of shares for the purpose of loss per share	<u>18,824,435,160</u>	<u>11,711,069,723</u>
		(Note)

Note: The weighted average number of ordinary shares for the purpose of loss per share has been restated to include adjustment for the subdivision during the six months ended 30 September 2009.

From continuing operations

The calculation of the basic and diluted loss per share for the period from continuing operations attributable to the owners of the Company is based on the following data:

	Six months ended 30 September	
	2010	2009
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Loss		
Loss for the period attributable to owners of the Company	(206,372)	(7,225,122)
Less: Loss for the period from discontinued operation	<u>—</u>	<u>(57)</u>
Loss for the purposes of loss per share from continuing operations	<u>(206,372)</u>	<u>(7,225,065)</u>

The denominators used are the same as those detailed above for loss per share from continuing and discontinued operations.

10. LOSS PER SHARE – *continued*

From discontinued operation

Basic and diluted loss per share from discontinued operation for the period ended 30 September 2009 is approximately HK0.0005 cents per share, based on the loss for the period from discontinued operation of approximately HK\$57,000, and the denominators detailed above for loss per share from continuing and discontinued operations.

The computation of diluted loss per share for the period ended 30 September 2010 and 2009 does not take into account the effect of share options granted, convertible preference shares and the warrants issued by the Company as these would result in a decrease in loss per share.

11. TRADE AND OTHER RECEIVABLES

	30 September 2010 HK\$'000 (unaudited)	31 March 2010 HK\$'000 (audited)
Trade receivables	8,170	14,312
Advances to suppliers (<i>Note a</i>)	2,027	21,637
Other receivables	307	1,180
Receivables in respect of sales of direct drinking water purification machines (<i>Note b</i>)	–	39,761
Prepayments and deposits	613	2,064
	11,117	78,954
	30 September 2010 HK\$'000 (unaudited)	31 March 2010 HK\$'000 (audited)
Analysis of trade and other receivables for reporting purposes as:		
– Non-current asset in respect of sales of direct drinking water purification machines	–	27,680
– Current asset	11,117	51,274
	11,117	78,954

Notes:

- a. During the year ended 31 March 2010, the Group has paid deposits to certain suppliers for purchasing raw materials.

During the six months ended 30 September 2010, the Group did not receive the raw materials on the agreed schedule from certain suppliers. The directors of the Company consider the recoverability of the aforesaid advances are doubtful and accordingly the Group has made impairment loss amounting to HK\$12,338,000 during this interim period.

- b. During the year ended 31 March 2010, the Group sold direct drinking water purification machines to certain independent third parties. The consideration was payable in interest free instalments over a period of five years.

During the six months ended 30 September 2010, the purchasers of the direct drinking water purification machines defaulted in payment of the instalments. The directors of the Company consider the recoverability of the aforesaid receivables are doubtful and accordingly the Group has made full impairment loss amounting to HK\$39,153,000 during this interim period.

11. TRADE AND OTHER RECEIVABLES – *continued*

Other than cash sales, the Group generally allows an average credit period of 30 days to 180 days to its trade customers.

The following is an aged analysis of trade receivables of the Group net of allowance for doubtful debts presented based on invoice date at the end of the reporting period:

	30 September 2010 HK\$'000 (unaudited)	31 March 2010 HK\$'000 (audited)
0 to 30 days	3,902	11,496
31 to 90 days	2,452	1,970
91 to 180 days	1,816	6,658
181 to 365 days	–	7,415
Over 1 year	–	285
	8,170	27,824

12. TRADE AND OTHER PAYABLES

	30 September 2010 HK\$'000 (unaudited)	31 March 2010 HK\$'000 (audited)
Trade payables	14,793	10,265
Bills payable	112	154
Other payables	7,269	7,348
Other tax payables	16,494	17,018
Receipt in advance from customers	7,859	8,250
Accruals	5,701	3,721
	52,228	46,756

Trade payables principally comprise amounts outstanding for purchase of raw materials and ongoing expenses. The average credit period for purchase of raw materials ranged from 30 days to 180 days.

The following is an aged analysis of trade payables and bills payable presented based on invoice date:

	30 September 2010 HK\$'000 (unaudited)	31 March 2010 HK\$'000 (audited)
0 – 30 days	112	4,858
31 – 90 days	3,472	3,154
91 – 180 days	6,778	1,405
181 – 365 days	3,551	708
Over 1 year	992	294
	14,905	10,419

13. BORROWINGS

As at 30 September 2010, the amounts represent unsecured fixed-rate loans with interest at 12% per annum from an independent third party with maturity period not exceeding one year.

14. COMPARATIVES

During the preparation of the annual consolidated financial statements of the Company for the year ended 31 March 2010 dated 16 July 2010, the Group has stated the embedded derivatives of the convertible bonds at fair value at 14 May 2009 and 29 June 2009, the dates of their conversion, which were arrived at with reference to the fair value of the ordinary shares and warrants issued at the respective dates of conversion of the convertible bonds. Accordingly, the comparative figures in the condensed consolidated financial statements in respect of the six months period ended 30 September 2009 have been restated to reflect the fair value of the embedded derivatives of the convertible bonds at these respective dates of conversion.

The impacts on the condensed consolidated statement of comprehensive income for the six months ended 30 September 2009 are as follows:

Consolidated statement of comprehensive income

	Six months ended 30 September 2009 HK\$'000
Increase in change in fair value of derivative financial instruments	(4,333,902)
Decrease in loss on initial recognition of derivative warrant liabilities	829,204
Increase in impairment loss and amortisation of intangible assets, net of related deferred tax credit (Note)	<u>(13,711)</u>
Increase in loss for the period	<u><u>(3,518,409)</u></u>

Note: In February 2009, the Group acquired Park Wealth Group in which the consideration for this acquisition was settled by the Company by the allotment and issuance of non-voting convertible preference shares. The number of convertible preference shares issued was based on the audited profit of Park Wealth Group for the year ended 31 December 2009. In the consolidated financial statements of the Group for the year ended 31 March 2009, the estimated number and fair value, of convertible preference shares to be issued and the fair value of the assets and liabilities of Park Wealth Group acquired were determined on a provisional basis.

Subsequently during the year ended 31 March 2010, the management completed the accounting for the acquisition of Park Wealth Group and finalised the cost of the acquisition of Park Wealth Group. As a result of the reassessment, the Group revised the fair value of the intangible assets at date of acquisition and this resulted in additional impairment loss and amortisation of intangible assets net of related deferred tax credit amounting to approximately HK\$13,711,000 recognised during the six months ended 30 September 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERALL RESULTS

The Group's turnover HK\$15,747,000 (2009: HK\$42,173,000) for the Current Period were generated from the direct drinking water machines and air and water purification equipment and system businesses operated by Shanghai Comfort Environment and Science Co., Ltd. and its subsidiaries (the "SH Comfort Group"). A gross loss of HK\$7,234,000 (2009: gross profit of HK\$20,704,000) was recorded for the Current Period which was resulted from SH Comfort Group. No turnover or gross profit was contributed by the gold mine in Current Period as the mining work is not yet commenced.

The Group's unaudited loss for the Current Period was HK\$207,352,000 (2009 (restated): HK\$7,225,122,000). The significant loss recorded in 2009 was mainly due to the changes in fair values of the convertible bonds and warrants and impairment loss on patents amounted to HK\$7,217,316,000 while the loss in Current Year was mainly resulted from: 1) the impairment losses amounted to HK\$113,903,000 in total on the property, plant and equipment, patents and goodwill; and 2) the allowance on bad and doubtful debts and impairment loss on advances to suppliers amounted to HK\$52,151,000.

REVIEW OF OPERATIONS

SH Comfort Group

SH Comfort Group engaged in direct drinking water machines business and air and water purification equipment and system businesses under the brand name of "OZONE COMFORT".

For the direct drinking water machines business, SH Comfort Group adopted a new business model last year by engaging agents in major provinces in China to operate and manage the business on its behalf instead of dealing with the end users in different regions in order to save the administrative effort. However, the pace of expansion was far behind the targets set to the agents. Besides, the Group noted that the performance of certain agents in managing the business was well below our expectation and even defaulted in payment of the instalments. As a result, the Group stopped to sell the direct drinking water machines to the agents and decided not to renew and terminate those agents before year end and revise the business strategy to minimise further losses. Only 4,537 new direct water drinking machines were installed in the Current Period. The turnover recorded in the Current Period was HK\$4,599,000 (2009: HK\$24,412,000) and the segment loss recorded was HK\$177,937,000 (2009: HK\$51,942,000). The increase in segment loss for the Current Period was mainly due to impairment losses on the property, plant and equipment, goodwill and patents as a result of the performance which was far behind the expectation and also the provision for doubtful debts from the agents as they defaulted in payment of the instalments.

For the air and water purification equipment and system business, the turnover recorded in the Current Period was HK\$11,148,000 (2009: HK\$17,761,000) and the segment loss was HK\$4,334,000 (2009: HK\$2,644,000). The drop in turnover and increase in segment loss were because most of the customers of SH Comfort Group slowed down their development and expansion plan as a result of the uncertainties of the global economy and the increase of the cost of the raw materials in the Current Period.

Gold Mine

Preliminary works, like design plans for the construction of roads to the mine, mining plant and supply of electricity, had commenced and an experienced management team was established to manage the operation. As more time is required for the preparation works before the exploration work commence, no turnover was recorded in the Current Period. The segment loss of HK\$13,128,000 in the Current Period represented mainly the amortization of the mining licence and the expenses on preparation works.

FINANCIAL REVIEW

Liquidity

The Group recorded the net current assets of HK\$477,000 as at 30 September 2010 (31 March 2010: HK\$55,280,000) and the current ratio was 1.0 as at 30 September 2010 as compared to 1.6 as at 31 March 2010. Such drops were mainly due to the provision made on the doubtful receivable balances. The bank balance as at 30 September 2010 was HK\$69,627,000 (31 March 2010: HK\$83,618,000), of which most were denominated in Hong Kong dollars, US dollars and Renminbi.

Gearing ratio

The total borrowings as at 30 September 2010 amounted to approximately HK\$33,071,000, including: 1) borrowings of HK\$9,265,000 (31 March 2010: HK\$9,099,000) which were interest-bearing at 12% per annum; and 2) amount due to a director of a subsidiary of HK\$23,806,000 (31 March 2010: HK\$23,464,000) which was interest free. The gearing ratio of the Group, which was expressed as a percentage of total borrowings to shareholders' equity, as at 30 September 2010 was 24.2% as compared to 9.5% as at 31 March 2010. The increase in the gearing ratio is mainly due to the drop in shareholders' equity as a result of the loss incurred for the Current Period.

Financial resources

The Group currently finances its operations mainly by internally generated funds, and other loans. The management believes that the Group will generate its liquidity from business operations and will consider making use of further equity financing when necessary.

Capital structure

On 16 July 2010, 214,637,160 shares of Non-voting Convertible Preference Shares were issued as the consideration for the acquisition of Park Wealth Group, which is the holding company of SH Comfort Group.

As at 30 September 2010, the Group had 18,824,435,160 ordinary shares and 214,637,160 shares of Non-voting Convertible Preference Shares in issued and recorded a shareholders' equity of HK\$136,567,000.

Charges on assets

As at 30 September 2010, the Group had no charge on assets.

Contingent liabilities

As at 30 September 2010, the Group had no contingent liabilities.

Foreign exchange exposure

As part of the Group's assets and liabilities are denominated in Renminbi, US dollars and Hong Kong dollars, in order to minimize the foreign exchange risk, the Group aims to utilize the fund for transactions that are denominated in the same currency.

EMPLOYMENT AND REMUNERATION POLICY

As at 30 September 2010, the Group had approximately 10, 12 and 122 employees in Hong Kong, Kyrgyzstan and the PRC respectively. The employees salaries are reviewed and adjusted annually based on their performance and experience. The Group's employee benefits include performance bonus, medical scheme, mandatory provident fund for Hong Kong employees, social insurance packages for the PRC employees and education subsidy to encourage continuous professional development of staff. The Group also has a discretionary share option scheme which is designed to award employees for their performance.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There were no material acquisitions and disposal of subsidiaries and associated companies during the Current Period.

FUTURE PLAN AND PROSPECTS

For the direct drinking water business and the air and water purification equipment and system business, the Company anticipates facing a very challenging environment in the coming future with the continuous increasing trend in cost of raw materials in Mainland China and the uncertain global economy. The management will explore different measures to trickle the challenges and exploring potential business partner to expand the market.

For the gold mine, exploration work and construction of the infrastructure near the mine will be carried out as anticipated. In view of the continuous rising trend of the gold price over the past years, the Directors expect that the gold mine will bring a wealthy return to the Group in the future.

In the mean time, the management continues to seek any potential investment opportunities to diversify the business scope and expanding the income source of the Group to enhance the profitability and maximize the value of the Group in order to thank you the strong support from all shareholders.

MODEL CODE FOR DIRECTORS' DEALING IN SECURITIES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all Directors and all the Directors have complied with the required standard set out in the Model Code and its code of conduct regarding Directors' securities transactions.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S SHARES

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's securities during the six months ended 30 September 2010.

AUDIT COMMITTEE

On 30 September 2010, the Audit Committee of the Company comprised of three Independent Non-executive Directors, namely, Mr Yap Yung (the Chairman), Dr Lam Man Kit, Dominic and Mr. Zhang Guang Sheng. The audit committee has reviewed the unaudited interim financial information for the six months ended 30 September 2010 and discussed with the management the accounting principle and practice adopted by the Group, internal controls and financial reporting matters of the Group.

At the request of the Audit Committee, the auditor of the Company, Deloitte Touche Tohmatsu, had carried out a review of the unaudited interim financial information for the six months ended 30 September 2010 in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. Based on their review, our auditor confirmed that nothing has come to their attention that caused them to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules") throughout the six months ended 30 September 2010 except for the deviation from the code provision A.2.1.

In accordance with the code provision A.2.1, the role of Chairman and Chief Executive Officer ("CEO") should not be performed by the same individual. Currently, Mr. Yuen Leong serves the role of Chairman of the Board and also the CEO of the Company. Since the role of chief executive officer/general manager of the Company's major operating subsidiaries are performed by other persons with the relevant expertise and they are directly accountable to the Board, the Board believes that the existing arrangement is adequate. Depending on the future development of the business of the Company, the Board will review the existing structure from time to time and consider the issue of nominating appropriate candidates to take up the title of Chairman and Chief Executive Officer.

PUBLICATION OF DETAILED INTERIM RESULTS

The interim report for the Current Period will be despatched to the shareholders and published on both of the websites of the Stock Exchange and the Company in due course.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express our appreciation to the continuous support of our shareholders and hard work and dedication of all our staff over the Current Period.

By order of the Board
Chaoyue Group Limited
Yuen Leong
Executive Director

Hong Kong, 26 November 2010

As at the date of this announcement, the Board comprises Mr. Yuen Leong and Ms. Luan Li as executive Directors; and Dr. Lam Man Kit, Dominic, Mr. Yap Yung and Mr. Zhang Guang Sheng as independent non-executive Directors.