



# 2011 INTERIM REPORT

**CHAOYUE GROUP LIMITED**

(Incorporated in Bermuda with limited liability)  
(Stock Code: 00147)

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## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Executive Directors

Yuen Leong

Luan Li

#### Independent Non-Executive Directors

Lam Man Kit, Dominic

Yap Yung

Zhang Guang Sheng

### COMPANY SECRETARY

Chung Yau Tong

### AUDITOR

Deloitte Touche Tohmatsu

### AUDIT COMMITTEE

Yap Yung (*Chairman*)

Lam Man Kit, Dominic

Zhang Guang Sheng

### REMUNERATION COMMITTEE

Lam Man Kit, Dominic (*Chairman*)

Yap Yung

Zhang Guang Sheng

### NOMINATION COMMITTEE

Zhang Guang Sheng (*Chairman*)

Lam Man Kit, Dominic

Yap Yung

### REGISTERED OFFICE

Clarendon House

Church Street

Hamilton HM 11

Bermuda

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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141 Des Voeux Road Central

Hong Kong

### PRINCIPAL SHARE REGISTRAR

Butterfield Fulcrum Group (Bermuda) Limited

Rosebank Centre

11 Bermudiana Road

Pembroke, HM 08

Bermuda

### HONG KONG BRANCH SHARE REGISTRAR

Tricor Secretaries Limited

26/F, Tesbury Centre

28 Queen's Road East

Hong Kong

### STOCK CODE

00147

### COMPANY WEBSITE

[www.chaoyuehk.com](http://www.chaoyuehk.com)

## REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

# Deloitte. 德勤

### TO THE BOARD OF DIRECTORS OF CHAOYUE GROUP LIMITED

超越集團有限公司

*(incorporated in Bermuda with limited liability)*

### INTRODUCTION

We have reviewed the interim financial information set out on pages 5 to 30, which comprises the condensed consolidated statement of financial position of Chaoyue Group Limited (the “Company”) and its subsidiaries as of 30 September 2011 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period 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. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this 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.

## REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

*(Continued)*

### 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 Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, 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, in all material respects, in accordance with HKAS 34.

#### **Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

24 November 2011

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2011

	NOTES	Unaudited Six months ended 30 September	
		2011 HK\$'000	2010 HK\$'000
Revenue	3	<b>14,259</b>	15,747
Cost of sales		<b>(5,408)</b>	(22,981)
Gross profit (loss)		<b>8,851</b>	(7,234)
Other income, gains and losses	4	<b>288</b>	2,723
Distribution and selling expenses		<b>(1,171)</b>	(6,143)
Administrative expenses		<b>(27,498)</b>	(88,698)
Finance costs	5	<b>(1,249)</b>	(553)
Impairment loss on property, plant and equipment	12	–	(63,302)
Impairment loss on intangible assets	12	–	(23,516)
Impairment loss on goodwill	12	–	(27,085)
Loss before taxation		<b>(20,779)</b>	(213,808)
Income tax (expense) credit	6	<b>(26)</b>	6,456
Loss for the period	7	<b>(20,805)</b>	(207,352)

**CONDENSED CONSOLIDATED STATEMENT OF  
COMPREHENSIVE INCOME** *(Continued)**For the six months ended 30 September 2011*

		<b>Unaudited Six months ended 30 September</b>	
	NOTES	<b>2011 HK\$'000</b>	2010 HK\$'000
<b>Other comprehensive income for the period</b>			
Exchange differences on translation		<b>(629)</b>	(721)
Total comprehensive expense for the period		<b>(21,434)</b>	(208,073)
Loss for the period attributable to:			
Owners of the Company		<b>(19,969)</b>	(206,372)
Non-controlling interests		<b>(836)</b>	(980)
		<b>(20,805)</b>	(207,352)
Total comprehensive expense attributable to:			
Owners of the Company		<b>(20,866)</b>	(207,159)
Non-controlling interests		<b>(568)</b>	(914)
		<b>(21,434)</b>	(208,073)
Loss per share – basic and diluted	9	<b>HK(0.11) cents</b>	HK(1.10) cents

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2011

	NOTES	Unaudited as at 30 September 2011 HK\$'000	Audited as at 31 March 2011 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	10	<b>14,611</b>	16,281
Intangible asset	11	<b>128,235</b>	131,770
Prepayment	13	<b>3,575</b>	–
		<b>146,421</b>	148,051
<b>CURRENT ASSETS</b>			
Inventories		<b>972</b>	1,147
Amounts due from customers for contract work		–	1,556
Trade and other receivables	13	<b>11,410</b>	10,325
Bank balances and cash		<b>57,598</b>	81,474
		<b>69,980</b>	94,502
<b>CURRENT LIABILITIES</b>			
Amounts due to customers for contract work		<b>953</b>	923
Trade and other payables	14	<b>74,797</b>	77,634
Tax payable		<b>2,607</b>	2,508
Warranty provision		<b>1,537</b>	1,428
Deferred income		<b>9,795</b>	9,304
		<b>89,689</b>	91,797



**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION** *(Continued)*

At 30 September 2011

	NOTES	<b>Unaudited as at 30 September 2011 HK\$'000</b>	Audited as at 31 March 2011 HK\$'000
NET CURRENT (LIABILITIES) ASSETS		<b>(19,709)</b>	2,705
TOTAL ASSETS LESS CURRENT LIABILITIES		<b>126,712</b>	150,756
NON-CURRENT LIABILITIES			
Amount due to a director of a subsidiary	15	<b>21,401</b>	20,061
Borrowings	16	<b>9,811</b>	9,498
Deferred income		<b>13,098</b>	17,361
		<b>44,310</b>	46,920
		<b>82,402</b>	103,836
CAPITAL AND RESERVES			
Share capital	17	<b>18,824</b>	18,824
Reserves		<b>59,763</b>	80,629
Equity attributable to owners of the Company		<b>78,587</b>	99,453
Non-controlling interests		<b>3,815</b>	4,383
		<b>82,402</b>	103,836

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2011

	Attributable to owners of the Company										
	Share capital HK\$'000	Non-voting convertible shares HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000 (Note)	Share option reserve HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 April 2010 (audited)	18,824	41,170	7,382,924	51,655	3,781	15,330	426	(7,171,211)	342,899	5,886	348,785
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	(787)	-	(787)	66	(721)
Loss for the period	-	-	-	-	-	-	-	(206,372)	(206,372)	(980)	(207,352)
Total comprehensive expense for the period	-	-	-	-	-	-	(787)	(206,372)	(207,159)	(914)	(208,073)
Share-based payments	-	-	-	-	-	827	-	-	827	-	827
At 30 September 2010 (unaudited)	18,824	41,170	7,382,924	51,655	3,781	16,157	(361)	(7,377,583)	136,567	4,972	141,539
At 1 April 2011 (audited)	18,824	41,170	7,382,924	51,655	3,781	16,157	(697)	(7,414,361)	99,453	4,383	103,836
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	(897)	-	(897)	268	(629)
Loss for the period	-	-	-	-	-	-	-	(19,969)	(19,969)	(836)	(20,805)
Total comprehensive expense for the period	-	-	-	-	-	-	(897)	(19,969)	(20,866)	(568)	(21,434)
At 30 September 2011 (unaudited)	18,824	41,170	7,382,924	51,655	3,781	16,157	(1,594)	(7,434,330)	78,587	3,815	82,402

**Note:** The capital redemption reserve represents amounts transferred from contributed surplus upon the repurchase of the Company's shares.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2011

	Six months ended 30 September	
	2011 HK\$'000 ( <i>unaudited</i> )	2010 HK\$'000 ( <i>unaudited</i> )
<b>OPERATING ACTIVITIES</b>		
Loss before taxation	<b>(20,779)</b>	(213,808)
Adjustments for:		
Depreciation of property, plant and equipment	<b>2,182</b>	10,088
Amortisation of intangible assets	<b>6,318</b>	9,802
Allowance on bad and doubtful debts, net	<b>4,081</b>	39,813
Allowance for contract costs incurred	<b>1,623</b>	–
Bank interest income	<b>(164)</b>	(92)
Interest on borrowing wholly repayable within five years	<b>580</b>	553
Imputed interest expense on non-current interest free amount due to a director of a subsidiary	<b>669</b>	–
Share-based payment expenses	–	827
Impairment loss on property, plant and equipment	–	63,302
Impairment loss on goodwill	–	27,085
Impairment loss on intangible assets	–	23,516
Impairment loss on advances to suppliers	–	12,338
Other non-cash-items	<b>109</b>	491
Operating cash flows before movements in working capital	<b>(5,381)</b>	(26,085)
Decrease in inventories	<b>175</b>	251
Increase in amounts due from customers for contract work	<b>(67)</b>	(5,901)
(Increase) decrease in trade and other receivables	<b>(8,741)</b>	15,686
Increase in amounts due to customers for contract work	<b>30</b>	41
(Decrease) increase in trade and other payables	<b>(5,241)</b>	6,183
Increase in deferred income	<b>(4,931)</b>	(3,714)
Other operating cash flows	<b>(5)</b>	(294)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(24,161)</b>	(13,833)

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

For the six months ended 30 September 2011

	<b>Six months ended 30 September</b>	
	<b>2011 HK\$'000 (<i>unaudited</i>)</b>	2010 HK\$'000 ( <i>unaudited</i> )
INVESTING ACTIVITIES		
Interest received	<b>164</b>	92
Purchases of property, plant and equipment	<b>(7)</b>	(267)
Proceeds from disposal of property, plant and equipment	<b>-</b>	10
NET CASH FROM (USED IN) INVESTING ACTIVITIES	<b>157</b>	(165)
NET DECREASE IN CASH AND CASH EQUIVALENTS	<b>(24,004)</b>	(13,998)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	<b>81,474</b>	83,618
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<b>128</b>	7
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash	<b>57,598</b>	69,627

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 September 2011*

### 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 Chaoyue Group Limited (the “Company”) is Renminbi (“RMB”) as the Company and its subsidiaries (collectively referred to as the “Group”) were having its operations mainly in the People’s Republic of China (the “PRC”). The condensed consolidated financial statements are presented in Hong Kong Dollars (“HKD”). The directors of the Company 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.

In preparing the condensed consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that it incurred a loss of approximately HK\$20,805,000 during the six months ended 30 September 2011 and as of that date, its current liabilities exceeded its current assets by approximately HK\$19,709,000. In the opinion of the directors of the Company, after taking into consideration that there are no material future cash outflow expected to be incurred by the Group for meeting its contractual obligations in respect of the deferred income amounting to HK\$9,795,000 and receipt in advance from customers amounting to HK\$34,122,000 included in other payables in current liabilities as at 30 September 2011, the Group has sufficient bank balances and cash to enable it to continue its operations and meet in full its liabilities when they fall due in the foreseeable future. Accordingly, the condensed consolidated financial statements are prepared on a going concern basis.

### 2. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost convention.

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 2011.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2011

### 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

In the current interim period, the Group has applied, for the first time, the following new and revised standards and interpretations ("new and revised HKFRSs") issued by the HKICPA.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HKAS 24 (Revised 2009)	Related Party Disclosures
HK (IFRIC) – INT 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK (IFRIC) – INT 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the above new and revised HKFRSs has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

The Group has not early applied the new and revised standards and amendments that have been issued but are not yet effective. The following new and revised standards have been issued after the date the consolidated financial statements for the year ended 31 March 2011 were authorised for issuance and are not yet effective:

HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters <sup>1</sup>
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets <sup>1</sup>
HKFRS 9	Financial Instruments <sup>2</sup>
HKFRS 10	Consolidated Financial Statements Instruments <sup>2</sup>
HKFRS 11	Joint Arrangements <sup>2</sup>
HKFRS 12	Disclosure of Interests in Other Entities <sup>2</sup>
HKFRS 13	Fair Value Measurement <sup>2</sup>
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income <sup>4</sup>
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets <sup>3</sup>
HKAS 19 (Revised 2011)	Employee Benefits <sup>2</sup>
HKAS 27 (Revised 2011)	Separate Financial Statements <sup>2</sup>
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2011

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2013

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2012

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2012

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2011

### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

HKFRS 10 replaces the parts of HKAS 27 “Consolidated and Separate Financial Statements” that deal with consolidated financial statements. Under HKFRS 10, there is only one basis for consolidation, that is control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor’s returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios. Overall, the application of HKFRS 10 requires a lot of judgment.

The directors of the Company are assessing the impact of the application of the new and revised standards. It is not practicable to provide a reasonable estimate of the effect until a detailed review has been completed.

### 3. REVENUE AND SEGMENT INFORMATION

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

	<b>Six months ended 30 September</b>	
	<b>2011</b>	2010
	<b>HK\$’000</b>	HK\$’000
	<b>(unaudited)</b>	<i>(unaudited)</i>
Sale of goods	<b>3,096</b>	2,906
Contract revenue	<b>16</b>	8,242
Rental income (Note)	<b>11,147</b>	3,750
Royalty fee income	<b>–</b>	849
	<b>14,259</b>	15,747

Note: For the rental income recognised during the six months ended 30 September 2011, the Group has received cash in advance from the customers as at 31 March 2011, which are recorded as receipt in advance from customers under trade and other payables.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2011

### 3. REVENUE AND SEGMENT INFORMATION *(Continued)*

The segment information reported externally was analysed on the basis of their products and services supplied by the Group's operating divisions which is consistent with the internal information that are regularly reviewed by the directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of performance. This is also the basis of organisation in the Group, whereby the management has chosen to organise the Group around differences in products and services. The Group's operating segments and their principal activities are as follows:

- |                           |   |   |
|---------------------------|---|---|
| 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  |

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



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2011

### 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 2011

	Direct drinking water HK\$'000	Purification equipment HK\$'000	Environmental engineering HK\$'000	Mining HK\$'000	Total HK\$'000
REVENUE					
External sales	11,147	3,096	16	-	14,259
RESULT					
Segment result	5,848	(3,250)	(1,646)	(13,306)	(12,354)
Unallocated income					164
Unallocated corporate expenses					(7,340)
Finance costs					(1,249)
Loss before taxation					(20,779)
<i>Amounts included in the measure of segment result:</i>					
Allowance on bad and doubtful debts, net	394	3,687	-	-	4,081
Amortisation on intangible asset	-	-	-	6,318	6,318
Expected loss on construction contract recognised in cost of sales	-	-	1,623	-	1,623

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2011

### 3. REVENUE AND SEGMENT INFORMATION (Continued)

Six months ended 30 September 2010

	Direct drinking water HK\$'000	Purification equipment HK\$'000	Environmental engineering HK\$'000	Mining HK\$'000	Total HK\$'000
<b>REVENUE</b>					
External sales	4,599	2,906	8,242	-	15,747
<b>RESULT</b>					
Segment result	(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, net	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
Expected loss on construction contract recognised in cost of sales	-	-	2,190	-	2,190
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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS** *(Continued)**For the six months ended 30 September 2011***3. REVENUE AND SEGMENT INFORMATION** *(Continued)*

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

	<b>30 September 2011 HK\$'000 (unaudited)</b>	31 March 2011 HK\$'000 (audited)
<b>ASSETS</b>		
<i>Segment assets</i>		
Direct drinking water	<b>14,957</b>	15,005
Purification equipment	<b>2,332</b>	8,853
Environmental engineering	<b>217</b>	1,719
Mining	<b>137,591</b>	131,770
<b>Total segment assets</b>	<b>155,097</b>	157,347
<i>Unallocated assets</i>		
– Bank balance and cash	<b>57,598</b>	81,474
– Others	<b>3,706</b>	3,732
<b>Total unallocated assets</b>	<b>61,304</b>	85,206
<b>Consolidated total assets</b>	<b>216,401</b>	242,553

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2011

### 4. OTHER INCOME, GAINS AND LOSSES

	Six months ended 30 September	
	2011 HK\$'000 ( <i>unaudited</i> )	2010 HK\$'000 ( <i>unaudited</i> )
Bank interest income	164	92
Sale of scrap materials	10	2,514
Others	114	117
	<b>288</b>	2,723

### 5. FINANCE COSTS

	Six months ended 30 September	
	2011 HK\$'000 ( <i>unaudited</i> )	2010 HK\$'000 ( <i>unaudited</i> )
Interest on borrowing wholly repayable within five years	580	553
Imputed interest expense on non-current interest free amount due to a director of a subsidiary ( <i>note 15</i> )	669	–
	<b>1,249</b>	553

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2011

### 6. INCOME TAX (EXPENSE) CREDIT

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	<i>(unaudited)</i>
Current tax – PRC Enterprise Income Tax	<b>(26)</b>	(294)
Deferred taxation	–	6,750
	<b>(26)</b>	6,456

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 Group's PRC Enterprise Income Tax is calculated based on the applicable tax rate on assessable profits, if applicable.

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 applicable EIT rate for the Group's other PRC subsidiaries is 25%.

The deferred tax credit for the six months ended 30 September 2010 arises as a result of the amortisation and impairment losses recognised on intangible assets of the Group.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2011

### 7. LOSS FOR THE PERIOD

Loss for the period has been arrived at after charging:

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	<i>(unaudited)</i>
Directors' emoluments	<b>1,206</b>	906
Other staff costs	<b>6,871</b>	5,580
Share-based payment	–	827
Other staff retirement benefit scheme contributions	<b>328</b>	557
<b>Total staff costs</b>	<b>8,405</b>	7,870
Cost of inventories recognised as expenses	<b>1,801</b>	15,087
Depreciation of property, plant and equipment	<b>2,182</b>	10,088
Amortisation of intangible assets included in administrative expenses	<b>6,318</b>	9,802
Allowance on bad and doubtful debts included in administrative expenses	<b>4,081</b>	39,813
Expected loss on construction contracts recognised in cost in sales	<b>1,623</b>	2,190
Impairment loss on advances to suppliers included in administrative expenses	–	12,338

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2011

### 8. DIVIDENDS

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

### 9. LOSS PER SHARE

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	
	2011	2010
	HK\$'000	HK\$'000
	<i>(unaudited)</i>	<i>(unaudited)</i>
<b>Loss</b>		
Loss for the period attributable to owners of the Company for the purpose of loss per share	<b>19,969</b>	206,372
<b>Number of shares</b>		
Weighted average number of shares for the purpose of loss per share	<b>18,824,435,160</b>	18,824,435,160

The computation of diluted loss per share for the period ended 30 September 2011 and 2010 does not take into account the effect of share options granted, convertible preference shares issued by the Company as these would result in a decrease in loss per share.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2011

### 10. PROPERTY, PLANT AND EQUIPMENT

The movements in property, plant and equipment during the period is summarised as follows:

	HK\$'000
Carrying amounts as at 1 April 2011 (audited)	16,281
Additions	7
Depreciation	(2,182)
Exchange adjustments	505
Carrying amounts as at 30 September 2011 (unaudited)	14,611

### 11. INTANGIBLE ASSET

The movements in intangible asset during the period is summarised as follows:

	Mining License HK\$'000
Carrying amount as at 1 April 2011 (audited)	131,770
Amortisation	(6,318)
Exchange adjustments	2,783
Carrying amount as at 30 September 2011 (unaudited)	128,235



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2011

### 11. INTANGIBLE ASSET *(Continued)*

Note:

The mining license represents exploration and evaluation assets which arose on acquisition of Eagle Mountain Holdings Limited and its subsidiaries (the "Eagle Mountain Group") in November 2009. At subsequent reporting periods, mining license is measured using the cost model subject to impairment.

The mining license cost is amortised using the straight line method until the end of the terms of the mining rights in 2021. The Group has an option to extend the mining license, which relates to copper and gold mineral, from 31 December 2021 for not more than 20 years in accordance with the local rules and regulations.

During the six months ended 30 September 2011, the mine, which relates to copper and gold mineral, is still under exploration and evaluation stage. Such mining license will be transferred to mining rights, another sub-category of intangible assets, when the technical feasibility and commercial viability of extracting the mineral resources in the mine are demonstrated. On the other hand, when it is established that the mining is not economically viable, the net carrying amount of the mining license will be written off. Amortisation will be provided to write off the cost of the mining rights using the units of production method based on the proven and probable mineral reserves under the assumption that the Group can renew the mining rights till all proven and probable mineral reserves have been depleted if the mining activity is carried out.

The directors of the Company are of the opinion, based on the latest feasibility study performed by the Group in February 2011 and also by reference to the valuation report prepared by BMI Appraisal Limited, there is no impairment on the mining license for the six months ended 30 September 2011.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2011

### 12. IMPAIRMENT LOSS ON PROPERTY, PLANT AND EQUIPMENT/INTANGIBLE ASSETS/GOODWILL

During the six months ended 30 September 2010, the directors determined that the direct drinking water purification machines included in the Group's property, plant and equipment and patents, which relates to the direct water business ("Direct Drinking Water Unit") was impaired such that an impairment loss of approximately HK\$63,302,000 and HK\$23,516,000 respectively have been recognised. In addition, the goodwill was also fully impaired based on the business valuation of the Direct Drink Unit performed by the management of the Company.

The impairment losses recognised during the six months ended 30 September 2010 to reduce the carrying amounts of each class of assets to their recoverable amounts are as follows:

	HK\$'000
Direct drinking water purification machines	63,302
Patents	23,516
Goodwill	27,085
	113,903

No impairment losses recognised during the six months ended 30 September 2011.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS** *(Continued)**For the six months ended 30 September 2011***13. TRADE AND OTHER RECEIVABLES**

	<b>30 September 2011 HK\$'000 (unaudited)</b>	31 March 2011 HK\$'000 (audited)
Trade receivables	<b>3,389</b>	7,158
Advances to suppliers	–	595
Other receivables	<b>1,814</b>	685
Prepayments and deposits	<b>1,137</b>	1,887
Prepaid allowances <i>(Note)</i>	<b>8,645</b>	–
	<b>14,985</b>	10,325
Analysis of trade and other receivables for reporting purposes as:		
– Non-current asset in respect of prepaid allowances <i>(Note)</i>	<b>3,575</b>	–
– Current asset	<b>11,410</b>	10,325
	<b>14,985</b>	10,325

*Note:* During the six months ended 30 September 2011, the Group has prepaid allowances amounting to approximately HK\$8,645,000 to certain expatriate engineers and professional staff for their two years services in performing exploration and evaluation of the undeveloped copper and gold mine in Kyrgyzstan. The aforesaid prepaid allowances are recorded in prepayment under non-current assets and trade and other receivables under current assets, respectively for such arrangement.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2011

### 13. 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:

	<b>30 September 2011 HK\$'000 (unaudited)</b>	31 March 2011 HK\$'000 (audited)
0 to 30 days	<b>78</b>	2,636
31 to 90 days	<b>1,359</b>	1,098
91 to 180 days	<b>1,157</b>	68
181 to 365 days	<b>795</b>	1,782
Over 1 year	<b>–</b>	1,574
	<b>3,389</b>	7,158

### 14. TRADE AND OTHER PAYABLES

	<b>30 September 2011 HK\$'000 (unaudited)</b>	31 March 2011 HK\$'000 (audited)
Trade payables	<b>2,728</b>	11,108
Other payables	<b>18,593</b>	18,510
Other tax payables	<b>17,534</b>	16,328
Receipt in advance from customers	<b>34,122</b>	29,262
Accruals	<b>1,820</b>	2,426
	<b>74,797</b>	77,634

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2011

### 14. TRADE AND OTHER PAYABLES (Continued)

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 presented based on invoice date:

	<b>30 September 2011</b>	31 March 2011
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	<b>(audited)</b>
0–30 days	–	171
31–90 days	–	2,719
91–180 days	–	452
181–365 days	<b>916</b>	4,154
Over 1 year	<b>1,812</b>	3,612
	<b>2,728</b>	11,108

### 15. AMOUNT DUE TO A DIRECTOR OF A SUBSIDIARY

	<b>30 September 2011</b>	31 March 2011
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	<b>(audited)</b>
Xiao Shu (肖述)	<b>21,401</b>	20,061

The amount represents interest-free advance from Xiao Shu which is non-trade nature. Xiao Shu is a director and former shareholder of a subsidiary of the Company.

Pursuant to the agreement entered into with Xiao Shu in March 2011, the advance from Xiao Shu will be repaid on or before 31 March 2014.

The amount is recognised at amortised cost with effective interest rate of 6.65% per annum.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2011

### 16. BORROWINGS

As at 30 September 2011, the amounts represent unsecured fixed-rate loans with interest at 12% per annum from an independent third party with maturity date on 31 March 2014.

### 17. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.001 each		
At 1 April 2011 and 30 September 2011	498,000,000,000	498,000
Non-voting convertible preference shares of HK\$0.001 each		
At 1 April 2011 and 30 September 2011	2,000,000,000	2,000
Issued and fully paid:		
Ordinary shares of HK\$0.001 each		
At 1 April 2011 and 30 September 2011	18,824,435,160	18,824
Non-voting convertible preference shares of HK\$0.001 each		
At 1 April 2011 and 30 September 2011	214,637,160	41,170

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2011

### 18. RELATED PARTY TRANSACTIONS

The Group has the following transactions with related parties during the period:

#### Compensation of key management personnel

The remuneration of key management during the period was as follows:

	Six months ended 30 September	
	2011 HK\$'000 <i>(Unaudited)</i>	2010 HK\$'000 <i>(Unaudited)</i>
Short-term benefits (including share option expenses)	2,508	1,739
Retirement benefits scheme contribution	28	12
	<b>2,536</b>	1,751

The remuneration of key management is determined having regard to the performance of individuals and market trends.

## MANAGEMENT DISCUSSION AND ANALYSIS

### OVERALL RESULTS

The Group recorded a turnover of HK\$14,259,000 for the Current Period as compared to HK\$15,747,000 for the corresponding period of 2010 and a change of gross loss of HK\$7,234,000 in the corresponding period of 2010 to gross profit of HK\$8,851,000 for the Current Period. The turnover and gross profit were generated from Shanghai Comfort Environment and Science Co., Ltd. and its subsidiaries (the "SH Comfort Group") which engaged in direct drinking water machines, air and water purification equipment and system businesses. No turnover or gross profit was contributed by the gold mine in Kyrgyzstan as mining work is not yet commenced in the Current Period.

The loss for the Current Period reduced significantly from HK\$207,352,000 as recorded in the corresponding period of 2010 to HK\$20,805,000. The significant loss recorded in the corresponding period of 2010 was mainly due to the non-recurring impairment losses on property, plant and equipment, patents and goodwill amounted to HK\$113,903,000 made. The significant improvement on the result for the Current Period, apart from the effect of the aforesaid non-recurring impairment losses, was also the effort of adopting new business model by the SH Comfort Group since early 2011 which provided a steady income stream for the Group. Besides, stringent credit control and cost control measures adopted by the Group during the Current Period also help a lot to reduce the running costs. The distribution and selling expenses for the Current Period was HK\$1,171,000 representing a 80.94% drop from HK\$6,143,000 in the corresponding period of 2010, and the administrative expenses for the Current Period was HK\$27,498,000, representing a 69.00% drop from HK\$88,698,000 in the corresponding period of 2010.

The loss per share of the Group for the Current Period was HK0.11 cent when compared to HK 1.10 cents in the corresponding period of 2010 and the Board does not recommend the payment of dividend for the Current Period.



## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### REVIEW OF OPERATIONS

#### **SH Comfort Group**

The appointment of a sole agent in early 2011 to manage the direct drinking water machines already rented to the end-users and to grant with the rights to use the patents and technology to run the business on behalf of SH Comfort in certain regions with the brand "OZONE COMFORT" by receiving the annual sole agent fee in advance was proved to be a right strategy. This operating model ensured a steady income stream and reduced the selling and administrative expenses a lot. The turnover of the direct drinking water machines business for the Current Period was HK\$11,147,000 which showed a more than two times increment when compared to HK\$4,599,000 recorded in the corresponding period of 2010. The segment result also showed a significant improvement by recording a profit of HK\$5,848,000 for the Current Period whereas a segment loss of HK\$177,937,000 was recorded in the corresponding period of 2010.

Under the stringent credit control procedures adopted in client acceptance procedures to minimize the risk and loss on bad and doubtful debts, the scale of operation of the air and water purification equipment and system business shrank a lot. The turnover recorded for this segment was dropped from HK\$11,148,000 as recorded in the corresponding period of 2010 to HK\$3,112,000 for the Current Period. The segment loss for the Current Period was HK\$4,896,000 as compared to HK\$4,334,000 for the corresponding period of 2010.

#### **Gold mine**

Feasibility study report for mining plan had been submitted to the relevant government authorities and awaiting for the approval. The professional team continue to conduct the exploration works to try to locate additional resources for the gold mine during the Current Period. As no mining work commenced, no turnover recorded. The segment loss recorded in Current Period was HK\$13,306,000 as compared to HK\$13,128,000 for the corresponding period of 2010. The loss included mainly amortization of mining license of HK\$6,318,000 and the costs incurred for the exploration works, consultancy and advisory works, staff cost and administrative expenses.

### MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There was no material acquisitions and disposal of subsidiaries and associated companies during the Current Year.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### FINANCIAL REVIEW

#### Liquidity

The Group recorded net current liabilities of HK\$19,709,000 as at 30 September 2011 (31 March 2011: net current assets of HK\$2,705,000) and the current ratio was 0.78 (31 March 2011: 1.03). The net current liabilities resulted as at 30 September 2011 was mainly due to certain non-refundable deferred income and receipt in advance from customers were recorded as current liabilities. These deferred income and receipt in advance from customers will be recognised as income once services being rendered and no material future cash outflow effect. Disregarding these non-refundable income receipt in advance and deferred income, there should have a net current asset instead.

The bank balance as at 30 September 2011 was HK\$57,598,000 (31 March 2011: HK\$81,474,000), of which most were denominated in Hong Kong dollars, US dollars and Renminbi. The Board of the Company consider that the Group has sufficient bank balances and cash to enable it to continue its operations and meet in full its liabilities when they fall due in the foreseeable future.

#### Gearing ratio

The gearing ratio of the Group, which was expressed as a percentage of total borrowings to shareholder's equity, as at 30 September 2011 was 39.72% as compared to 29.72% as at 31 March 2011. The total borrowings as at 30 September 2011 amounted to approximately HK\$31,212,000 (31 March 2011: HK\$29,559,000) represented borrowings of HK\$9,811,000 (31 March 2011: HK\$9,498,000), which were interest-bearing at 12% per annum, and an amount due to a director of a subsidiary of HK\$21,401,000 (31 March 2011: HK\$20,061,000), which was interest free. These two borrowings were contracted to be repayable at 31 March 2014 without security. The increase in the gearing ratio is mainly due to the decrease 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

There was no change in capital structure during the Current Period. As at 30 September 2011, the Group had issued 18,824,435,160 shares of ordinary shares and 214,637,160 shares of Non-voting Convertible Preference Shares and recorded a shareholders' equity of HK\$78,587,000 (31 March 2011: HK\$99,453,000).

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### FINANCIAL REVIEW *(Continued)*

#### **Charges on assets**

As at 30 September 2011, the Group had no charge on assets (31 March 2011: Nil).

#### **Contingent liabilities**

As at 30 September 2011, the Group had no contingent liabilities (31 March 2011: Nil).

#### **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 31 March 2011, the Group had approximately 12, 12 and 19 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. No share option was granted during the Current Period and there were 66,000,000 share options granted to the directors and employees of the Group as at 30 September 2011.

### FUTURE PLAN AND PROSPECTS

The Group will continue to adopt the conservative approach to run and develop the businesses of SH Comfort Group. With the tight credit control and cost control measures implemented, the SH Comfort Group is expected to grow steadily in the coming year.

Several potential business partners who are interested in our mining plan of the gold mine in Kyrgyzstan had been contacted and negotiated in the Current Period but concrete co-operation plan had yet been concluded. As the demand of gold keep increasing, the management expects the gold mine will bring a good return to the Group in the future.

Under the principle of prudence, management of the Company will continue to identify potential business partners to develop our businesses and seek investment opportunities to diversify the business scope and income source of the Group to enhance the profitability and maximize the value of the Group in order to reward the shareholders for their long term and strong support.

## ADDITIONAL INFORMATION

### SHARE OPTION SCHEME

The following table discloses details of option outstanding under the Company's share option scheme and movements during the period ended 30 September 2011:

Category of participant	Exercise period	Outstanding at 1 April 2011	Outstanding at 30 September 2011
<b>Directors:</b>			
Yuen Leong	17/7/2008 to 16/9/2014	3,000,000	3,000,000
	17/7/2009 to 16/9/2014	3,000,000	3,000,000
	17/7/2010 to 16/9/2014	3,000,000	3,000,000
Lam Man Kit, Dominic	17/7/2008 to 16/9/2014	3,000,000	3,000,000
	17/7/2009 to 16/9/2014	3,000,000	3,000,000
	17/7/2010 to 16/9/2014	3,000,000	3,000,000
<b>Total directors</b>		<b>18,000,000</b>	<b>18,000,000</b>
<b>Employees:</b>			
	17/7/2008 to 16/9/2014	16,000,000	16,000,000
	17/7/2009 to 16/9/2014	16,000,000	16,000,000
	17/7/2010 to 16/9/2014	16,000,000	16,000,000
<b>Total employees</b>		<b>48,000,000</b>	<b>48,000,000</b>
<b>Grand total</b>		<b>66,000,000</b>	<b>66,000,000</b>

These options were granted on 17 July 2008. The number of share options and exercised price had been adjusted after share subdivision on 3 August 2009. The adjusted exercise price is HK\$0.532 per ordinary share of the Company. No share options were exercised, lapsed or cancelled during the six months ended 30 September 2011.

**ADDITIONAL INFORMATION** *(Continued)***DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES**

As at 30 September 2011, the interests and short positions of the directors and the chief executive and their associates in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (a) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

**(i) Long position in shares and underlying shares of the Company***Ordinary shares of HK\$0.001 each of the Company*

<b>Name of Director</b>	<b>Capacity in which interests are held</b>	<b>Options to Subscribe for Shares of the Company</b>	<b>Number of Shares interested</b>	<b>Interests as to % to the issued share capital of the Company</b>
Yuen Leong	Interest of a controlled corporation	–	12,887,473,880 <i>(Note 1)</i>	68.46%
	Beneficial owner	9,000,000 <i>(Note 2)</i>	–	0.05%
Lam Man Kit, Dominic	Beneficial owner	9,000,000 <i>(Note 2)</i>	–	0.05%

*Notes:*

- (1) These 12,887,473,880 shares are held by Long Grand Limited which is legally and beneficially owned as to 70% by Mr. Yam Yu and as to 30% by Mr. Yuen Leong. By virtue of his 30% direct interest in Long Grand Limited, Mr. Yuen Leong is deemed or taken to be interested in the 12,887,473,880 shares held by Long Grand Limited for the purposes of the SFO.
- (2) Pursuant to the share option scheme adopted by a resolution of the Shareholders on 17 September 2004, these share options were granted on 17 July 2008 and are exercisable at HK\$0.532 per Share (after share subdivision on 3 August 2009) from 17 July 2008 to 16 September 2014.

## ADDITIONAL INFORMATION (Continued)

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES (Continued)

#### (ii) Long position in shares and underlying shares of associated corporation

Name of Director	Name of associated corporation	Interest held by controlled corporation	Personal interest	Number of ordinary shares (long positions)		
				Family interest	Total number of shares held in associated corporation	Approximate percentage of issued share capital of associated corporation
Yuen Leong	Long Grand Limited	-	Beneficial owner	-	300	30%

Save as disclosed above, as at 30 September 2011, none of the Directors and the chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO), (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or (b) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the foregoing and save as disclosed under the heading "Share option scheme" and "Directors' and Chief Executives' Interests in Shares and Underlying Shares" above, at no time during the six months ended 30 September 2011 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them or was the Company, or any of its holding companies, its fellow subsidiaries or any of its subsidiaries a party to any arrangement to enable the directors, their respective spouse or minor children to acquire such rights in or any other body corporate.

**ADDITIONAL INFORMATION** *(Continued)***SUBSTANTIAL SHAREHOLDERS**

As at 30 September 2011, the following interest of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO.

**Long position:**

<b>Name</b>	<b>Interest in shares</b>	<b>Nature of interest</b>	<b>Percentage of the Company's issued share capital</b>
Long Grand Limited <i>(Note 1)</i>	12,887,473,880	Direct Beneficial owner	68.46%

*Note:*

- (1) Long Grand Limited is legally and beneficially owned as to 70% by Mr. Yam Yu and as to 30% by Mr. Yuen Leong.

Save as disclosed above, as at 30 September 2011, no other person, other than the director of the Company, whose interests are disclosed under the heading "Directors' and Chief Executives' Interests in Shares and Underlying Shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## **ADDITIONAL INFORMATION** *(Continued)*

### **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 2011.

### **AUDIT COMMITTEE**

On 30 September 2011, 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 2011 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 auditors of the Company, Deloitte Touche Tohmatsu, had carried out a review of the unaudited interim financial information for the six months ended 30 September 2011 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 had come to their attention that caused them to believe that the interim financial information was not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".



## ADDITIONAL INFORMATION *(Continued)*

### 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 2011 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.

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

Hong Kong, 24 November 2011