



CHAOYUE GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 00147)

Interim Report 2009/10



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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 AND QUALIFIED ACCOUNTANT

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

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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



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 4 to 47 which comprises the condensed consolidated statements of financial position of Chaoyue Group Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) as of 30 September 2009 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 the 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.

SCOPE OF REVIEW

We conducted our review in accordance with the 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 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 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

23 December 2009

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

	NOTES	Six months ended 30 September	
		2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Continuing operations			
Turnover	4	42,173	-
Cost of sales		(21,469)	-
Gross profit		20,704	-
Other income, gains and losses	5	5,706	1,620
Distribution and selling expenses		(14,223)	-
Administrative and other expenses		(30,699)	(12,253)
Finance costs	6	(2,786)	(8,266)
Changes in fair value of derivative financial instruments		9,878	(149)
Loss on initial recognition of derivative warrant liabilities	20	(829,204)	-
Changes in fair value of derivative warrant liabilities	20	(2,838,197)	-
Impairment losses on intangible assets		(38,692)	-
Loss before taxation		(3,717,513)	(19,048)
Income tax credit	7	10,857	-
Loss for the period from continuing operations		(3,706,656)	(19,048)
Discontinued operation			
Loss for the period from discontinued operation	8	(57)	(5,651)
Loss for the period		(3,706,713)	(24,699)
Other comprehensive income for the period			
Exchange differences on translation		3	-
Total comprehensive expense for the period		(3,706,710)	(24,699)



CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(Continued)*

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

	NOTES	Six months ended 30 September	
		2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Loss per share	11		
From continuing and discontinued operations			
Basic		HK(64.70) cents	HK(7.33) cents
Diluted		HK(64.70) cents	HK(7.33) cents
From continuing operations			
Basic		HK(64.70) cents	HK(5.65) cents
Diluted		HK(64.70) cents	HK(5.65) cents



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 SEPTEMBER 2009

	NOTES	30 September 2009 HK\$'000 (Unaudited)	31 March 2009 HK\$'000 (Audited) (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	12	105,406	115,623
Intangible assets	13	27,000	73,214
Receivables in respect of disposal of property, plant and equipment	15	22,547	–
		154,953	188,837
CURRENT ASSETS			
Inventories		7,140	5,465
Amounts due from customers for contract work		7,247	4,520
Trade and other receivables	15	20,083	24,649
Bank balances and cash		141,401	147,142
		175,871	181,776
CURRENT LIABILITIES			
Amounts due to customers for contract work		7,019	7,967
Trade and other payables	16	52,551	49,101
Amount due to a director of a subsidiary	17	23,495	25,255
Taxation payable		785	2,788
Borrowings	18	9,070	9,070
Warranty provision		999	950
Deferred income		10,933	28,135
Convertible bonds	19	–	172,802
Derivative financial instruments	19	–	19,665
Derivative warrant liabilities	20	1,205,016	–
		1,309,868	315,733
NET CURRENT LIABILITIES		(1,133,997)	(133,957)
TOTAL ASSETS LESS CURRENT LIABILITIES		(979,044)	54,880



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

AT 30 SEPTEMBER 2009

		30 September 2009 HK\$'000 (Unaudited)	31 March 2009 HK\$'000 (Audited) (Restated)
	NOTES		
<hr/>			
NON-CURRENT LIABILITIES			
Deferred income		4,696	4,904
Deferred taxation		6,750	18,304
		11,446	23,208
<hr/>			
NET (LIABILITIES) ASSETS		(990,490)	31,672
<hr/>			
CAPITAL AND RESERVES			
Share capital	22	17,751	3,370
(Deficit) reserves		(1,008,241)	28,302
<hr/>			
TOTAL (DEFICIT) EQUITY		(990,490)	31,672
<hr/>			

The financial statements on pages 4 to 47 were approved and authorised for issue by the Board of Directors on 23 December 2009 and are signed on its behalf by:

Yuen Leong
Director

Luan Li
Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

	Share capital HK\$'000	Non-voting convertible preference shares HK\$'000 <i>(Note i)</i>	Share premium HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000 <i>(Note ii)</i>	Share option reserve HK\$'000 <i>(Note iii)</i>	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2008 (audited)	3,370	-	23,685	51,655	3,781	-	-	(12,568)	69,923
Loss for the period	-	-	-	-	-	-	-	(24,699)	(24,699)
Total comprehensive expense for the period	-	-	-	-	-	-	-	(24,699)	(24,699)
Share-based payments	-	-	-	-	-	8,663	-	-	8,663
At 30 September 2008 (unaudited)	3,370	-	23,685	51,655	3,781	8,663	-	(37,267)	53,887
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	12	-	12
Loss for the period	-	-	-	-	-	-	-	(27,838)	(27,838)
Total comprehensive expense for the period	-	-	-	-	-	-	12	(27,838)	(27,826)
Share-based payments	-	-	-	-	-	5,237	-	-	5,237
Consideration of the acquisition of subsidiaries	-	383,620	-	-	-	-	-	-	383,620
At 31 March 2009 and 1 April 2009, as originally stated	3,370	383,620	23,685	51,655	3,781	13,900	12	(65,105)	414,918
Prior year adjustments to provisional values <i>(Note 3)</i>	-	(383,620)	-	-	-	-	-	374	(383,246)
At 31 March 2009 and 1 April 2009, as restated	3,370	-	23,685	51,655	3,781	13,900	12	(64,731)	31,672



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Continued)*

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

	Non-voting convertible preference		Share	Contributed surplus	Capital redemption reserve	Share option reserve	Translation reserve	Accumulated losses	Total
	Share capital	shares issuable	premium	surplus	reserve	reserve	reserve	losses	HK\$'000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		<i>(Note i)</i>			<i>(Note ii)</i>	<i>(Note iii)</i>			
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	3	-	3
Loss for the period	-	-	-	-	-	-	-	(3,706,713)	(3,706,713)
Total comprehensive expense for the period	-	-	-	-	-	-	3	(3,706,713)	(3,706,710)
Conversion of convertible bonds into ordinary shares	12,300	-	134,502	-	-	-	-	-	146,802
Shares issued on exercise of share options	6	-	4,407	-	-	(1,221)	-	-	3,192
Exercise of warrants	2,075	-	2,529,463	-	-	-	-	-	2,531,538
Share-based payments	-	-	-	-	-	3,016	-	-	3,016
Share options lapsed	-	-	-	-	-	(1,758)	-	1,758	-
At 30 September 2009 (unaudited)	17,751	-	2,692,057	51,655	3,781	13,937	15	(3,769,686)	(990,490)

Notes:

- (i) The non-voting convertible preference shares issuable represent the contingent consideration for acquisition of 100% equity interests in Park Wealth International Limited and its subsidiaries (the "Park Wealth Group"). For details, please refer to notes 3 and 21.
- (ii) The capital redemption reserve represents amounts transferred from contributed surplus upon the repurchase of the Company's shares.
- (iii) The share option reserve represents the reserve recognised as a result of the grant of share options of the Company to certain directors and employees of the Group.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

		Six months ended 30 September	
	NOTE	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
NET CASH (USED IN) FROM OPERATING ACTIVITIES		(11,215)	16,165
INVESTING ACTIVITIES			
Interest received		114	1,896
Purchase of property, plant and equipment		(27,206)	50
NET CASH (USED IN) FROM INVESTING ACTIVITIES		(27,092)	1,946
FINANCING ACTIVITIES			
Repayment of borrowings		–	(28,389)
Repayment to a director of a subsidiary		(1,760)	–
Proceeds from issue of new shares upon exercise of share options		3,192	–
Proceeds from issue of new shares upon exercise of warrants	20	31,125	–
NET CASH FROM (USED IN) FINANCING ACTIVITIES		32,557	(28,389)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(5,750)	(10,278)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		147,142	265,532
Effect of foreign exchange rate changes		9	–
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash		141,401	255,254



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

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”).

In prior periods, the Company’s functional currency was Hong Kong dollars (“HKD”). Due to the continuing expansion of the Group’s business operations in the People’s Republic of China (the “PRC”), the directors have determined that the functional currency of the Company has been changed from HKD to Renminbi (“RMB”) after the acquisition of the Park Wealth Group in Feb 2009. The functional currency of the Company has already been changed from HKD to RMB for the year ended 31 March 2009. The directors have made an assessment of the impact of the change of the functional currency of the Company and concluded that there was no material effect on the results and financial position of the Group.

The consolidated financial information are presented in HKD as 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.

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\$3,706,713,000 during the six months ended 30 September 2009 and as of that date, its current liabilities exceeded its current assets by approximately HK\$1,133,997,000 and total liabilities exceeded its total assets by approximately HK\$990,490,000. As detailed in note 26 (a), 1,000,000,000 warrants had been fully exercised for an aggregate cash exercise price of HK\$15,000,000 and 1,000,000,000 new ordinary shares of the Company had been issued. Upon exercise of the warrants, the derivative warrant liabilities amounting to HK\$1,205,016,000 as at 30 September 2009 had been derecognised, with a corresponding increase in equity. Accordingly, the condensed consolidated financial statements are prepared on a going concern basis.



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

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

2. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments that 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 financial statements for the year ended 31 March 2009.

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 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 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 not 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 4). 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 *(Continued)*

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

In previous years, the Group expensed all borrowing costs that were directly attributable to the acquisition, construction or production of a qualifying asset when they were incurred. HKAS 23 (Revised 2007) removes the option available under the previous version of the standard to recognise all borrowing costs as expenses immediately and requires all such borrowing costs to be capitalised as part of the cost of the qualifying asset. The Group has applied the transitional requirements in HKAS 23 (Revised 2007) and applied the revised accounting policy to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 April 2009. 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.

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 combination for which the acquisition dates are on or after 1 April 2010. HKAS 27 (Revised 2008) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. 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.

3. PRIOR YEAR ADJUSTMENTS

In February 2009, the Group acquired 100% equity interest in Park Wealth Group from independent third parties which resulted in a goodwill initially recognised in the consolidated financial statements of the Group for the year ended 31 March 2009 of approximately HK\$369,535,000. The consideration for this acquisition will be settled by the Company by the allotment and issuance of non-voting convertible preference shares ("Convertible Preference Shares"). The number of Convertible Preference Shares to be issued is subject to the finalisation of the audited profit of Park Wealth Group for the year ending 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. As such, the goodwill which arose on acquisition of subsidiaries may be adjusted accordingly as a result of the finalisation of the above.



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

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

3. PRIOR YEAR ADJUSTMENTS *(Continued)*

During the six months ended 30 September 2009, the management has reassessed the provisional fair value of the intangible assets and the Convertible Preference Shares based on the estimate of the forecast consolidated result of the Park Wealth Group for the year ending 31 December 2009. As a result of the reassessment, the Group has revised the fair value of the intangible assets at date of acquisition from approximately HK\$94,000,000 to approximately HK\$75,220,000 and the Convertible Preference Shares from approximately HK\$369,535,000 to Nil. The estimate has been prepared by the management on the basis of the accounting policies being consistent in all material aspects with those currently adopted by the Group.

The impact of such reassessment on the consolidated statement of comprehensive income and consolidated statement of financial position for the year ended 31 March 2009 are as follows:

Consolidated statement of comprehensive income

	1.4.2008 – 31.03.2009 HK\$'000
Decrease in amortisation of intangible assets	500
Decrease in income tax credits	(126)
Decrease in loss for the year	374



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

3. PRIOR YEAR ADJUSTMENTS (Continued)

Consolidated statement of financial position

	As at 31 March 2009 (originally stated) HK\$'000	Adjustment HK\$'000	As at 31 March 2009 (restated) HK\$'000
Intangible assets	91,494	(18,280)	73,214
Goodwill	369,535	(369,535)	–
Deferred taxation	(22,873)	4,569	(18,304)
Non-voting convertible preference shares	(383,620)	383,620	–
	54,536	374	54,910

4. TURNOVER AND SEGMENT INFORMATION

An analysis of the turnover, which is also the Group's turnover, for the period for both continuing and discontinued operations, is as follows:

	Six months ended 30 September	
	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Sale of goods	11,987	43,196
Contract revenue	5,774	–
Rental income	24,027	–
Royalty fee income	385	–
	42,173	43,196
Continuing operations	42,173	–
Discontinued operation	–	43,196
	42,173	43,196



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

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

4. TURNOVER AND SEGMENT INFORMATION *(Continued)*

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 Group's chief operating decision maker (i.e. Executive Director) in order to allocate resources to segments and to assess their performance. In contrast, the predecessor standard (HKAS14, 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. 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.

The Group's reportable segments under HKFRS 8, and their principal activities are as follows:

Continuing operations

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

Discontinued operation

Garment – Manufacturing and sales of garments

The Group was involved in garment trading business, which was reported as a separate segment under HKAS 14 in previous period. That operation was discontinued with effect from August 2009 (note 8).



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

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

4. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Discontinued operation *(Continued)*

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

The segment information about these business segments is presented below.

Six months ended 30 September 2009

	Continuing operations			Discontinued operation		Total HK\$'000
	Direct drinking water HK\$'000	Purification equipment HK\$'000	Environmental engineering HK\$'000	Garment HK\$'000	Elimination HK\$'000	
REVENUE						
External sales	24,412	11,987	5,774	-	-	42,173
Inter-segment sales	-	18,945	-	-	(18,945)	-
Total	24,412	30,932	5,774	-	(18,945)	42,173
RESULT						
Segment result	5,030	(2,643)	(1)	(57)	171	2,500
Unallocated income						114
Unallocated corporate expenses						(21,183)
Finance costs						(2,786)
Changes in fair value of derivative financial instruments						9,878
Loss on initial recognition of derivative warrant liabilities						(829,204)
Changes in fair value of derivative warrant liabilities						(2,838,197)
Impairment losses on intangible assets						(38,692)
Loss before taxation						(3,717,570)



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

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

4. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Discontinued operation *(Continued)*

During the six months ended 30 September 2008, the Group's entire revenue are contributed by its garment business, and therefore no operating segment analysis is presented.

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

Segment result represents the profit earned by each segment without allocation of central administration costs and directors' salaries, some items of other income, changes in fair value of derivative financial instruments, changes in fair value of derivative warrant liabilities, impairment losses on intangible assets and income tax credit. This is the measure reported to the chief operating decision maker for the purposes of resources allocation and assessment of segment performance.

5. OTHER INCOME

	Six months ended 30 September	
	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Bank interest income	114	1,620
Sale of scrap materials	143	–
Gain on disposal of property, plant and equipment <i>(note)</i>	5,157	–
Others	292	–
	5,706	1,620



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

5. OTHER INCOME (Continued)

Note:

During the six months ended 30 September 2009, the Group disposed of water purification machines, which were leased out under operating leases and classified as property, plant and equipment, with carrying amount of HK\$29,849,000 to independent third parties at a consideration of approximately HK\$29,849,000, payable in interest free instalments over a five years period. The present value of the consideration receivable amounted to approximately HK\$26,470,000. Upon the disposal, deferred income amounting to HK\$8,536,000 which represents amount received in advance for rental of the 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. The consideration has not been settled at 30 September 2009 and was included in trade and other receivables as disclosed in note 15.

6. FINANCE COSTS

	Six months ended	
	30 September	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interests on convertible bonds	2,241	8,266
Interest on borrowing wholly repayable within five years	545	2,166
	2,786	10,432
Attributable to continuing operations	2,786	8,266
Attributable to discontinued operation	–	2,166
	2,786	10,432

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

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

7. INCOME TAX CREDIT

	Six months ended 30 September	
	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Continuing operations:		
Income tax (credit) expense		
Current tax:		
People's Republic of China (the "PRC")		
Enterprise Income Tax	696	-
Deferred taxation		
Current period	(11,553)	-
	(10,857)	-

No provision for Hong Kong Profits Tax has been made in the condensed consolidated statement of comprehensive income for the six months ended 30 September 2009 as the Group has no assessable profit arising in Hong Kong.

Taxation arising in the PRC is calculated based on the applicable tax rates on assessable profits, if applicable.

Shanghai Comfort Environment and Science Company Limited ("Shanghai Comfort"), a subsidiary is regarded as advance technology enterprises by local tax bureau and 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 losses recognised on intangible assets of the Group.



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

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

8. 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 is not significant, the management does not consider the discontinuation of the garment business would have any material impact on the Group's financial result.

	Six months ended	
	30 September	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Turnover	–	43,196
Cost of sales	–	(42,473)
Gross profit	–	723
Other income	98	578
Distribution and selling expenses	–	(745)
Administrative and other expenses	(155)	(4,041)
Finance costs	–	(2,166)
Loss for the period	(57)	(5,651)

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

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

9. LOSS FOR THE PERIOD

Loss for the period has been arrived at after charging (crediting):

	Continuing operation		Discontinued operation		Consolidated	
	Six months		Six months		Six months	
	ended 30 September		ended 30 September		ended 30 September	
	2009	2008	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Directors' emoluments	662	600	-	-	662	600
Other staff costs	10,293	922	140	1,212	10,433	2,134
Share-based payment	3,016	8,663	-	-	3,016	8,663
Other staff retirement benefit scheme contributions	1,293	24	3	39	1,296	63
Total staff costs	15,264	10,209	143	1,251	15,407	11,460
Cost of inventories recognised as expenses	14,863	-	-	42,473	14,863	42,473
Depreciation of property, plant and equipment	7,686	68	-	533	7,686	601
Amortisation of intangible assets included in administrative expenses	7,522	-	-	-	7,522	-
Impairment losses on intangible assets	38,692	-	-	-	38,692	-
Allowance on bad and doubtful debts, net	1,784	-	-	-	1,784	-
Textile quota expenses	-	-	-	530	-	530
(Gain) loss on disposal of property, plant and equipment	(5,157)	-	-	1,398	(5,157)	1,398
Bank interest income	(114)	(1,620)	-	(276)	(114)	(1,896)



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

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

10. DIVIDENDS

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

11. 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	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss		
Loss for the period attributable to owners of the Company for the purpose of basic loss per share	(3,706,713)	(24,699)

	Six months ended 30 September	
	2009	2008
Number of shares		
Weighted average number of shares for the purpose of basic loss per share	5,728,683,855	337,031,016



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

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

11. LOSS PER SHARE *(Continued)*

From continuing operations

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

	Six months ended 30 September	
	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Loss		
Loss for the period attributable to equity holders of the Company	(3,706,713)	(24,699)
Less: Loss for the period from discontinued operation	(57)	(5,651)
Loss for the purposes of basic loss per share from continuing operations	(3,706,656)	(19,048)

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



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

11. LOSS PER SHARE (Continued)

From discontinued operation

For the periods ended 30 September 2009 and 2008, basic loss per share from discontinued operation was approximately HK\$Nil and HK\$1.68 cents per share respectively, based on the loss for the period from discontinued operation of approximately HK\$57,000 and HK\$5,651,000 respectively, and the denominators detailed above for basic loss per share from continuing and discontinued operations.

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

During the period ended 30 September 2008, the computation of diluted loss per share does not assume the conversion of the outstanding convertible bonds since its exercise would result in a decrease in loss per share during the period ended 30 September 2008. Also, the diluted earnings per share for the periods do not adjust for the effects of the share options because the exercise price of the Company's option was higher than the average market price of shares for the periods.

12. PROPERTY, PLANT AND EQUIPMENT

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

	HK\$'000
Carrying values as at 1 April 2009	115,623
Additions	27,206
Depreciation	(7,686)
Disposal of property, plant and equipment	(29,849)
Exchange adjustments	112
Carrying values as at 30 September 2009	105,406



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

13. INTANGIBLE ASSETS

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

	HK\$'000
Carrying values as at 1 April 2009, as originally stated	91,494
Prior year adjustment (<i>Note 3</i>)	(18,280)
Carrying values as at 1 April 2009, as restated	73,214
Amortisation	(7,522)
Impairment losses recognised	(38,692)
Carrying values as at 30 September 2009	27,000

The above intangible assets represent patents acquired in Park Wealth Group, in relation to the design and production of direct drinking water purification machines which have finite useful lives. Such intangible assets are amortised on a straight line basis over the estimated useful life of approximately five years.

During the six months ended 30 September 2009, impairment loss in respect of intangible assets of approximately HK\$38,692,000 was recognised by reference to the valuation report issued by BMI Appraisals Limited ("BMI") as at 30 September 2009. The fair value calculated was based on the relief from-royalty approach where the royalty rate used is 2.8% per annum. The discount rate used in arriving the fair value of the patent is 23.5%. BMI is a firm of independent qualified professional valuers not connected with the Group, and has appropriate qualifications and recent experiences in the valuation of patents of similar industries. The main factor contributing to the impairment was reduction in the expected turnover of the direct drinking segment as the actual turnover did not turn out as expected.



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

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

14. GOODWILL

	HK\$'000
<hr/>	
COST	
At 1 April 2009, as originally stated	369,535
Prior year adjustment to provisional fair values (<i>Note 3</i>)	(369,535)
<hr/>	
At 1 April 2009, as restated and at 30 September 2009	-
<hr/>	

As described in note 3, the management of the Group has completed the assessment of the fair value of the assets and liabilities of Park Wealth Group acquired and the Convertible Preference Shares at date of acquisition. As a result of the assessment, the number of Convertible Preference Shares was assessed to be nil such that the provisional goodwill which arose from acquisition of Park Wealth has been adjusted to nil accordingly.



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

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

15. TRADE AND OTHER RECEIVABLES

	30 September 2009 HK\$'000 (Unaudited)	31 March 2009 HK\$'000 (Audited)
Trade receivables	8,908	16,098
Advances to suppliers	3,402	5,473
Other receivables	2,494	875
Receivables in respect of disposal of property, plant and equipment (<i>note</i>)	25,703	–
Prepayments and deposits	2,123	2,203
	42,630	24,649
Analysis of receivables in respect of disposal of property, plant and equipment for reporting purposes as:		
Current asset	3,156	–
Non-current asset	22,547	–
	25,703	–

Note: The balance will not be recoverable within one year from the end of the reporting period and the other receivables and therefore considered as non-current. Such interest-free balances are measured at amortised cost using the average effective interest method at the rate of at the rate of 5.76% per annum.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

15. 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 based on the invoice date net of allowance for doubtful debts at the end of reporting period:

	30 September 2009 HK\$'000 (Unaudited)	31 March 2009 HK\$'000 (Audited)
0 to 30 days	3,698	7,278
31 to 90 days	879	2,356
91 to 180 days	1,895	826
181 to 365 days	890	5,328
Over 1 years	1,546	310
	8,908	16,098

16. TRADE AND OTHER PAYABLES

	30 September 2009 HK\$'000 (Unaudited)	31 March 2009 HK\$'000 (Audited)
Trade payables	17,585	19,594
Bills payable	1,447	1,705
Other payables	2,931	5,024
Other tax payables	14,161	8,675
Payroll payable	1,994	2,619
Receipt in advance from customers	11,080	9,518
Accruals	3,353	1,966
	52,551	49,101

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

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

16. 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 and bills payable based on invoice date:

	30 September 2009 HK\$'000 (Unaudited)	31 March 2009 HK\$'000 (Audited)
0 – 30 days	3,854	14,906
31 – 90 days	6,043	4,330
91 – 180 days	1,730	1,565
181 – 365 days	7,065	154
Over 1 year	340	344
	19,032	21,299

17. AMOUNT DUE TO A DIRECTOR OF A SUBSIDIARY

	30 September 2009 HK\$'000 (Unaudited)	31 March 2009 HK\$'000 (Audited)
Xiao Shu (肖述)	23,495	25,255

Xiao Shu is a director and former shareholder of a subsidiary of the Company.

The amount represents the advance which is non-trade nature.

The amount is interest free, unsecured and repayable on demand.



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

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

18. BORROWINGS

As at 30 September 2009, 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.

19. CONVERTIBLE BONDS

On 24 December 2007, the Company issued zero coupon convertible bonds at par denominated in HKD in an aggregate principal amount of HK\$124,500,000 to a substantial shareholder of the Company namely Long Grand Limited ("Subscription Bond") and HK\$60,000,000 to outsiders ("Placing Bond") (collectively known as the "Convertible Bonds"). The Convertible Bonds will mature on the second anniversary of the date of issue of the Convertible Bonds, 24 December 2009. The Convertible Bonds entitle the holders to convert them into ordinary shares ("Conversion Shares") of the Company at any time between the date of issue of the Convertible Bonds and their maturity date on 24 December 2009 at a conversion price of HK\$0.15 per share subject to adjustments for subdivision or consolidation of shares, bonus issues, rights issues, distributions and other dilutive events. If the Convertible Bonds have not been converted, they will be redeemed on 24 December 2009 at their principal amount. The Convertible Shares shall at all times rank equally among themselves and *pari passu* with all other shares of the Company in issue with respect of the right to any dividends or distributions declared.

Other principal terms of the Convertible Bonds:

Upon the Convertible Bonds holders exercising the conversion rights attached to the Convertible Bonds, the Company shall issue warrants to subscribe for new ordinary shares of the Company at a subscription price of HK\$0.15 exercisable anytime from the date of issue of the warrant to the date falling on the first anniversary of the date of issue of the warrant (in the proportion of one warrant for every four Conversion Shares) (the "Warrants") by way of bonus issue to the holders of the Convertible Bonds. The subscription price of the Warrants is HK\$0.15 per share, subject to adjustments for subdivision or consolidation of shares, right issues and other dilutive events which may have adverse effects on the rights of the holder(s) of the Warrants.



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

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

19. CONVERTIBLE BONDS *(Continued)*

Other principal terms of the Convertible Bonds: *(Continued)*

The Company can early redeem the Convertible Bonds any time before the maturity of the Convertible Bonds at 100% of the principal amount of the Convertible Bonds.

The net proceeds received from the issue of Convertible Bonds contain the following components that are required to be separately accounted for:

- (i) The fair value of the liability component for the Convertible Bonds represents the present value of the contractually determined stream of future cash flows discounted at the rate of interest at the date of issue with reference to the market rate for instruments of comparable credit status taking into account the credit risk of the Company as well as the amount of the Convertible Bonds, but without the conversion option. The effective interest rate of the liability component is 7.95%.
- (ii) Embedded derivatives, comprising:
 - (a) The fair value of redemption discretionary option derivatives represents the Company's option to early redeem all or part of the Convertible Bonds; and
 - (b) The fair value of conversion option derivatives represent the option of the bondholders to convert the Convertible Bonds into equity of the Company at conversion price of HK\$0.15 and the issuance of Warrants by way of bonus issue for every four Conversion shares with exercise price of HK\$0.15.



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

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

19. CONVERTIBLE BONDS *(Continued)*

Other principal terms of the Convertible Bonds: *(Continued)*

- (ii) Embedded derivatives, comprising: *(Continued)*

The binomial model is used in the valuation of the embedded conversion option derivatives. The value of the issuer's redemption option was estimated using the "with and without approach", whereby the value of the redemption option is determined as the difference between the value of optional conversion option without the issuer's redemption option and the value of the optional conversion option with the issuer's redemption option. Inputs into the model at the respective dates are as follows:

	29 June 2009	14 May 2009	31 March 2009
Risk Free Rate of interest	0.04%	0.08%	0.31%
Credit Spread	5.34%	6.08%	11.40%
Risk Premium	3.65%	3.65%	3.88%
Discount Rate	9.03%	9.81%	15.05%
Conversion Price	HK\$0.15	HK\$0.15	HK\$0.15
Spot Price	HK\$5.05	HK\$1.85	HK\$1.80
Volatility	98.58%	108.64%	121.58%

On 14 May 2009, 400,000,000 Conversion Shares at the conversion price of HK\$0.15 were issued to the Convertible Bonds holders upon their conversion of the Placing Bond in the aggregate principal amount of HK\$60,000,000. In addition, 400,000,000 Conversion Shares were issued to Long Grand Limited upon its conversion of the Subscription Bond in the principal amount of HK\$60,000,000 on 14 May 2009. In accordance with the terms and conditions of Placing Bond and the Subscription Bond, upon exercising the conversion rights attaching to the Placing Bond and the Subscription Bond on 14 May 2009, on the same day, the Company issued by way of bonus 100,000,000 warrants to Long Grand Limited and an aggregate of 100,000,000 warrants to holders of the Conversion Shares.

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

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

19. CONVERTIBLE BONDS *(Continued)*

Other principal terms of the Convertible Bonds: *(Continued)*

- (ii) Embedded derivatives, comprising: *(Continued)*

On 29 June 2009, 430,000,000 Conversion Shares at the conversion price of HK\$0.15 were issued to Long Grand Limited upon their conversion of the Subscription Bond in the aggregate principal amount of HK\$64,500,000. In accordance with the terms and conditions of the Subscription Bond, upon exercising the conversion rights attaching to the Subscription Bond on 29 June 2009, on the same day, the Company issued by way of bonus 107,500,000 warrants to Long Grand Limited.

The movements of the liability component and the embedded derivatives in the Convertible Bonds during the year/period are set out below:

	Liability HK\$'000	Embedded derivatives HK\$'000	Total HK\$'000
At 1 April 2008	160,209	22,231	182,440
Imputed interest charged	8,266	–	8,266
Change in fair value	–	149	149
At 30 September 2008	168,475	22,380	190,855
At 1 April 2009	172,802	19,665	192,467
Imputed interest charged	2,241	–	2,241
Change in fair value	–	(9,878)	(9,878)
Conversion of convertible bonds into ordinary shares	(175,043)	(9,787)	(184,830)
At 30 September 2009	–	–	–



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

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

20. DERIVATIVE WARRANT LIABILITIES

On 14 May 2009, 400,000,000 Conversion Shares at the conversion price of HK\$0.15 were issued to the Convertible Bonds holders upon their conversion of the Placing Bond in the aggregate principal amount of HK\$60,000,000. In addition, 400,000,000 Conversion Shares were issued to Long Grand Limited upon its conversion of the Subscription Bond in the principal amount of HK\$60,000,000 on 14 May 2009. In accordance with the terms and conditions of Placing Bond and the Subscription Bond, upon exercising the conversion rights attaching to the Placing Bond and the Subscription Bond on 14 May 2009, on the same day, the Company issued by way of bonus 100,000,000 Warrants to Long Grand Limited and an aggregate of 100,000,000 Warrants to each of the holders of the Conversion Shares.

On 29 June 2009, 430,000,000 Conversion Shares at the conversion price of HK\$0.15 were issued to Long Grand Limited upon their conversion of the Subscription Bond in the aggregate principal amount of HK\$64,500,000. In accordance with the terms and conditions of the Subscription Bond, upon exercising the conversion rights attaching to the Subscription Bond on 29 June 2009, on the same day, the Company issued by way of bonus 107,500,000 Warrants to Long Grand Limited.

A loss of approximately HK\$829,204,000 was recognised on initial recognition of the derivative warrant liabilities which represents the difference between the fair value of the derivative warrant liabilities and the carrying value of the liability and embedded derivative component attributable to the Warrants at date of issuance.

On 31 July 2009, a special resolution was passed by the shareholders of the Company to approve the subdivision of the issued and unissued ordinary shares and Convertible Preference Shares into 10 subdivided ordinary shares and 10 subdivided Convertible Preference Shares of HK\$0.001 each respectively. Pursuant to the terms and conditions of the instrument dated 24 December 2007 constituting the Warrants, the subscription price of the Warrants was adjusted from HK\$0.15 per ordinary share to HK\$0.015 per subdivided share as a result of the share subdivision. On 31 July 2009, based on the outstanding subscription rights of the Warrants of HK\$46,125,000, the number of shares of the Company to be issued upon exercise of the Warrants was adjusted from 307,500,000 ordinary shares to 3,075,000,000 subdivided shares as a result of the share subdivision.

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

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

20. DERIVATIVE WARRANT LIABILITIES *(Continued)*

On 30 September 2009, the Company allotted and issued 2,075,000,000 shares and received cash of HK\$31,125,000 upon exercise of the warrants issued during the period. The total number of warrants to be exercised is 1,000,000,000 as at 30 September 2009. All remaining outstanding warrants will expire on 29 June 2010.

The fair value of the warrants was determined using the Black-Scholes Option Pricing Model and the inputs into the model were as follow:

	30 September 2009		29 June 2009	14 May 2009
	Lot 1 <i>(note a)</i>	Lot 2 <i>(note b)</i>	Lot 2 <i>(note b)</i>	Lot 1 <i>(note a)</i>
Exercise price	HK\$0.015	HK\$0.015	HK\$0.15	HK\$0.15
Share price	HK\$1.22	HK\$1.22	HK\$5.50	HK\$1.85
Expected volatility	112.644%	110.722%	118.579%	109.301%
Remaining life	8 months	9 months	1 Year	1 Year
Risk free rate	0.18%	0.19%	0.11%	0.17%

Notes:

- (a) Lot 1 refers to the 2,000,000,000 Warrants issued on 14 May 2009 (after adjustment for share sub-division).
- (b) Lot 2 refers to the 1,075,000,000 Warrants issued on 29 June 2009 (after adjustment for share sub-division).

The movements of derivative warrant liabilities during the period is set out below:

	HK\$'000
At 1 April 2008, 30 September 2008 and 31 March 2009	–
Fair value of warrants granted during the period	867,232
Change in fair value	2,838,197
Exercise of warrants	(2,500,413)
At 30 September 2009	1,205,016



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

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

21. NON-VOTING CONVERTIBLE PREFERENCE SHARES

The Convertible Preference Shares to be issued by the Company for the acquisition of the Park Wealth Group with a par value of HK\$0.01 each can be converted into ordinary shares without maturity date. The conversion price is fixed at HK\$4 per ordinary share. The Convertible Preference Shares shall at all times rank equally among themselves and *pari passu* with all other ordinary shares of the Company in issue with respect of the right to any dividends or distributions declared. On 31 July 2009, a special resolution was passed by the shareholders of the Company to approve the subdivision of the issued and unissued ordinary shares and Convertible Preference Shares into 10 subdivided ordinary shares and 10 subdivided Convertible Preference Shares of HK\$0.001 each respectively. Pursuant to the terms and conditions of the Convertible Preference Shares, the conversion price of the Convertible Preference Shares would be adjusted from HK\$4.0 per ordinary share to HK\$0.4 per subdivided share as a result of the share subdivision.

The following are the other major terms of the Convertible Preference Shares:

In the event of liquidation or dissolution or winding up, or merger, or reorganisation that will result in any distribution of assets of the Company to the existing shareholders of the Company, the holders of the Convertible Preference Shares will receive an amount equal to 100% of the face value of the Convertible Preference Shares. In addition, the ranking of the Convertible Preference Shares is higher than ordinary shares, but lower than creditor in case of liquidation.

The holder of each Convertible Preference Shares shall not have any voting rights. The Convertible Preference Shares shall be non-redeemable and will not be listed on any stock exchange.



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

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

21. NON-VOTING CONVERTIBLE PREFERENCE SHARES

(Continued)

The following are the other major terms of the Convertible Preference Shares:

(Continued)

On 12 February 2009, the Group acquired the Park Wealth Group pursuant to the agreement dated 11 October 2008 (the “Agreement”) entered into between Successtime Limited, a wholly owned subsidiary of the Company and the then shareholders of Park Wealth International Limited. According to the Agreement, the Group shall issue 200,000,000 Convertible Preference Shares within 10 business days of the finalisation of the audited consolidated net profit after tax of the Park Wealth Group for the year ending 31 December 2009 provided that such audited consolidated net profit after tax of the Park Wealth Group will not be less than HK\$100,000,000 (the “Audited Profit”). If the Audited Profit of the Park Wealth Group is less than the HK\$100,000,000 (the “Guaranteed Profit”), the number of Convertible Preference Shares to be issued shall be in accordance with the formula below:

$$\text{Number of shares to be issued} = \frac{\text{Audited Profit}}{\text{Guaranteed Profit}} \times 200,000,000$$

The holders of the Convertible Preference Shares shall be entitled to convert the Convertible Preference Shares into ordinary shares in the following manner:

- (i) Up to 40% of the Convertible Preference Shares anytime during the period commencing from the first business day following the second anniversary of the date of completion of the Agreement until the third anniversary of the date of completion of the Agreement;



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

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

21. NON-VOTING CONVERTIBLE PREFERENCE SHARES

(Continued)

The following are the other major terms of the Convertible Preference Shares:

(Continued)

- (ii) Up to 70% of the Convertible Preference Shares anytime during the period commencing from the first business day following the third anniversary of the date of completion of the Agreement until the fourth anniversary of the completion of the Agreement;

- (iii) All the remaining convertible shares anytime after the first business day following the fourth anniversary of the date of completion of the Agreement.

The holder of the Convertible Preference Shares shall not exercise the conversion rights and the Company shall not issue any shares if, upon such conversion and/or issue, (i) the holder of the Convertible Preference Shares and the parties acting in concert with it, will be interested in 30% (or such amount as may from time to time be specified in the Hong Kong Code on Takeovers and Mergers as being the level for triggering a mandatory general offer) or more of the then enlarged issued ordinary share capital of the Company on the relevant conversion date, or (ii) the shareholding in the Company held by the public will be less than 25% or the minimum prescribed percentage as set out in the Rules Governing the Listing of Securities on the Stock Exchange from time to time.

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

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

22. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Authorised:		
At 1 April 2008, 30 September 2008 of HK\$0.01 each	50,000,000,000	500,000
Designated as non-voting Convertible Preference Share <i>(Note (i))</i>	(200,000,000)	(2,000)
At 31 March 2009 of HK\$0.01 each	49,800,000,000	498,000
Share subdivision <i>(Note (iii))</i>	448,200,000,000	–
At 30 September 2009 of HK\$0.001 each	498,000,000,000	498,000
Non-voting Convertible Preference Shares		
At 1 April 2009 of HK\$0.01 each	200,000,000	2,000
Share subdivision <i>(Note (iii))</i>	1,800,000,000	–
At 30 September 2009 of HK\$0.001 each	2,000,000,000	2,000
Issued and fully paid:		
At 1 April 2008, 30 September 2008 and 31 March 2009 of HK\$0.01 each	337,031,016	3,370
Conversion of convertible bonds into ordinary shares	1,230,000,000	12,300
Share subdivision	14,103,279,144	–
Shares issued on exercise of share options	6,000,000	6
Exercise of warrants	2,075,000,000	2,075
At 30 September 2009 of HK\$0.001 each	17,751,310,160	17,751



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

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

22. SHARE CAPITAL *(Continued)*

Notes:

- (i) Pursuant to the Special General Meeting held on 11 February 2009, the Company creates and designates 200,000,000 shares of HK\$0.01 each in the authorised share capital of the Company as non-voting Convertible Preference Shares.
- (ii) On 31 July 2009, a special resolution was passed by the shareholders of the Company to approve the subdivision of the issued and unissued ordinary shares and Convertible Preference Shares into 10 subdivided ordinary shares and 10 subdivided Convertible Preference Shares of HK\$0.001 each respectively.

23. OTHER COMMITMENTS

	30 September 2009 HK\$'000 (Unaudited)	31 March 2009 HK\$'000 (Audited)
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	45	522
Commitment in respect of the acquisition of subsidiaries contracted for but not provided in the financial statements	1,403,000	–



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

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

23. OTHER COMMITMENTS

Notes:

- (a) In September 2009, the Group has entered into a conditional agreement (“Agreement”) with an independent third party to acquire 100% equity interests in Earnrich Group Limited (“Earnrich”) for a consideration of not less than approximately HK\$1,248,000,000 on the basis that Earnrich will acquire 51 to 60% attributable interest in Blue Ridge Platinum (Proprietary) Limited (“Blue Ridge”). The principal activities Earnrich and Blue Ridge are set out as below:
- Earnrich is a company incorporated in the British Virgin Islands and has not been engaged in active business operations since its incorporation.
 - Blue Ridge is a company incorporated in the Republic of South Africa and owns the mining right for a mine situated on the Blaauwbank Farm, approximately 30 kilometers southeast of Groblersdal, on the eastern limb of the Bushveld Complex, the Republic of South Africa.

The key conditions precedent in the Agreement include the Company having carried out and completed fund raising to its satisfaction and Earnrich having completed the acquisition of 51% to 60% attributable interest in Blue Ridge.

- (b) For the commitment of the acquisition of 90% equity interest in Eagle Mountain Holdings Limited and its subsidiaries (the “Eagle Mountain Group”) for a consideration of US\$20,000,000, the aforesaid transaction was completed at the date of the report as disclosed in note 26(b). Other than owning the mining right of a mine located in the Chatkal region of Jala-Abad Province in western Kyrgyz Republic, the Eagle Mountain Group has not engaged in any active business operations.



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

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

24. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted on 17 September 2004 pursuant to a resolution passed by the Company's shareholders on 17 September 2004 for the primary purposes of providing incentives to any directors or full-time employees of the Company or any of its subsidiaries ("Eligible Employees") and will expire on 16 September 2014. Under the Scheme, the Board of Directors of the Company is authorised to grant options at a consideration of HK\$1 per option to the Eligible Employees to subscribe for shares in the Company.

The maximum number of shares issued or which may be issuable under the Scheme cannot exceed 10% of the issued share capital of the Company excluding any shares issued pursuant to the Scheme at the date of adoption. The number of shares in respect of which options granted and may be granted to any Eligible Employee is not permitted to exceed 30% of the aggregate number of shares for the time being issued and issuable under the Scheme.

The offer of a grant of share options may be accepted within 21 days from the date of the offer together with the payment of nominal consideration of HK\$1 per option by the grantee.

The exercisable period of an option is determined by the directors at their discretion. The expiry of the option may be determined by the Board of Directors of the Company which shall not be later than the expiry day of the Scheme.

The exercise price is determined by the directors of the Company, and will not be less than the greater of: (i) the closing price of the Company on the offer date; (ii) the average of the closing price of the Company's shares for the 5 trading days immediately preceding the offer of the options and (iii) the nominal value per share of the Company.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

24. SHARE OPTION SCHEME (Continued)

On 31 July 2009, a special resolution was passed by the shareholders of the Company to approve the subdivision of the issued and unissued ordinary Shares and Convertible Preference Shares into 10 subdivided ordinary shares and 10 subdivided Convertible Preference Shares of HK\$0.001 each respectively. Pursuant to the terms and conditions of the Scheme and the requirements of Chapter 17 of the Listing Rules, the exercise price of the share options granted under the Scheme would be adjusted from HK\$5.32 per Ordinary Share to HK\$0.532 per subdivided share while the number of shares of the Company to be allotted and issued upon exercise of the subscription rights attaching to the share options would be adjusted from 8,400,000 ordinary shares to 84,000,000 subdivided ordinary shares as a result of the share subdivision. The total number of shares to be issued upon the exercise of all options granted under the Scheme is 66,000,000 as at 30 September 2009.

Details of the share options granted, exercised, and lapsed under the Scheme during the period ended 30 September 2009 are as follows:

Category of Grantee	Date of grant	Exercise price per share	Exercisable period	Vesting period	Outstanding	Granted	Exercised	Lapsed	Outstanding
					at 1 April 2009	during the period	during the period	during the period	at 30 September 2009
Director	17 July 2008	HK\$0.532	7/17/2008 – 9/16/2014	N/A	12,000,000	-	(3,000,000)	(3,000,000)	6,000,000
			7/17/2009 – 9/16/2014	7/17/2008 – 7/16/2009	12,000,000	-	(3,000,000)	(3,000,000)	6,000,000
			7/17/2010 – 9/16/2014	7/17/2008 – 7/16/2010	12,000,000	-	-	(6,000,000)	6,000,000
					36,000,000	-	(6,000,000)	(12,000,000)	18,000,000
Employees	17 July 2008	HK\$0.532	7/17/2008 – 9/16/2014	N/A	15,999,980	-	-	-	15,999,980
			7/17/2009 – 9/16/2014	7/17/2008 – 7/16/2009	16,000,010	-	-	-	16,000,010
			7/17/2010 – 9/16/2014	7/17/2008 – 7/16/2010	16,000,010	-	-	-	16,000,010
					48,000,000	-	-	-	48,000,000



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

24. SHARE OPTION SCHEME (Continued)

The share price of the Company immediately before 17 July 2008 the date of grant of the options, was HK\$5.2.

Black-Scholes option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the Company's best estimate. The value of an option varies with different variables of certain subjective assumptions. The inputs into the model are as follows:

	17 July 2008
Market price	HK\$5.30
Exercise price	HK\$5.32
Expected volatility	80.04% – 82.18%
Expected life	3.08 years – 4.08 years
Risk-free rate	2.66% – 2.98%
Expected dividend yield	4.48%

The estimated fair value of the options at the date of grant on 17 July 2008 is approximately HK\$20,564,000. The Group recognised a total expense of HK\$3,016,000 for the period ended 30 September 2009 (Period ended 30 September 2008: HK\$8,663,000) in relation to share options granted by the Company.

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

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

25. RELATED PARTY TRANSACTIONS

- (i) Other than the convertible bonds and derivative warrant liabilities disclosed in notes 19 and 20, the Group has the following transactions with related parties during the period:

	Six months ended 30 September	
	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Rental charges paid to a related company <i>(note)</i>	–	507

Note: Mr. Ling Tai Yuk, John, a director of a subsidiary, controls and has beneficial interests in this related company.

- (ii) Compensation of key management personnel

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

	Six months ended 30 September	
	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Short-term benefits (including share option expenses)	4,527	4,313
Retirement benefits scheme contribution	38	63
	4,565	4,376

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



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

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

26. SUBSEQUENT EVENTS

- (a) From 9 October 2009 to 27 November 2009, the Company allotted and issued 1,000,000,000 shares for a cash consideration of HK\$15,000,000 upon exercise of warrants.

- (b) On 20 November 2009, Pride Delight Limited, a wholly-owned subsidiary of the Company, acquired the assets and liabilities of a gold mine through the acquisition of 90% equity interests in Eagle Mountain Holdings Limited from an independent third party namely Vintage Gold Management Limited (“Vendor”) at a consideration of US\$20,000,000, of which approximately US\$12,000,000 was satisfied by the allotment and issue of 73,125,000 shares of the Company (“Consideration Shares”) to the Vendor at the issue price of HK\$1.28, and US\$8,000,000 was satisfied by the payment of cash.

The above transaction will be accounted for as purchase of assets and liabilities as Pride Delight Limited does not have any business activities except for holding an undeveloped gold mining right.



MANAGEMENT DISCUSSION AND ANALYSIS

The board of directors (the “Board” or the “Directors”) of Chaoyue Group Limited (the “Company”) is pleased to present the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2009 (the “Current Period”), together with the comparative figures for the corresponding period of the previous year.

OVERALL RESULTS

The Group’s turnover HK\$42,173,000 (2008: HK\$43,196,000) and gross profit HK\$20,704,000 (2008: HK\$723,000) for the Current Period were generated from the newly acquired businesses in February 2009, the direct drinking water machines and air and water purification equipment and system businesses, as the garment business was discontinued in the Current Period.

The Group recorded a significant loss of HK\$3,706,713,000 in the Current Period (2008: HK\$24,699,000). Such significant loss was mainly due to net loss resulted from the changes in fair value of derivative financial instruments and derivative warrant liabilities and the loss on initial recognition of derivative warrant liabilities amounted to HK\$3,657,523,000 and impairment losses on intangible assets amounted to HK\$38,692,000. As the change in fair value of the derivative financial instruments and derivative warrant liabilities, the initial recognition of derivative warrant liabilities and impairment losses on intangible assets are non-cash items and will not have any impact on the operating result and operating cash flows of the Group.

The loss per share for the Current Period increased to HK64.70 cents as a result of the significant loss (2008: HK7.33 cents) and the Board does not recommend the payment of dividend for the Current Period.



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

REVIEW OF OPERATIONS

Continuing operations

Direct drinking water machines

The direct drinking water machines business has significant contribution to the Group in both the turnover and the operating result in the Current Period. The turnover generated from direct drinking water machines business for the Current Period was HK\$24,412,000 and the segment recorded a profit of HK\$5,030,000.

During the Current Period, Shanghai Comfort Environment and Science Co., Ltd (“SH Comfort”) changed its business model by engaging 3 major distributors in 3 major well-developed provinces in China, including Beijing, Shanghai and Shenzhen, to develop and expand the business. SH Comfort sold the direct drinking water machines to the major distributors and received patent and royalty fees and marketing fees for each machine from the distributors instead of dealing with the end users directly in order to spend more resource to improve the core technology and to develop new models and products to capture different markets.

The number of direct drinking water machine installed during the Current Period was 20,898 units. The pace was slow down a bite in the Current Period as a result of formulating the new business model and the future strategy. The management had confidence that the business will expand in a high growth rate in the coming future. As a result of the change of business model in the Current Period, the patent recognised in the previous year was restated and impaired and the balance as at 30 September 2009 was HK\$27,000,000.



MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

REVIEW OF OPERATIONS *(Continued)*

Continuing operations *(Continued)*

Air and water purification equipment and system

The products of and technology used by SH Comfort have received wide recognition from various organizations and are sold to and installed at food processing factories, auto manufacturing plants and hospitals which require high standard of purification in their facilities. However, the sales of the equipment and system did not have significant contribution to the Group for the Current Period. Most of the customers of SH Comfort slowed down their development and expansion plan as a result of the global financial tsunami had not yet fully recovered. The revenue resulted from the sales and installation of the purification equipment and system for the Current Period was HK\$17,761,000 and the segment recorded a loss of HK\$2,644,000.

The management expected that the businesses will have a stable and sustainable growth in future once the global economic market recovered.

Discontinued operation

Garment business

The Directors considered that the continuous adverse operating environment as a result of the economic downturn since the second half of year 2008, the Group has encountered great difficulties in obtaining orders from customers for its garment business which has ceased to generate meaningful return to the Group. The Company has resolved to discontinue the garment business of the Group on 28 August 2009. There was no turnover or gross profit generated from garment business during the Current Period, and it recorded a loss of HK\$57,000 and consolidated to the Group at the end of the Current Period.



MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL REVIEW

Liquidity

The Group recorded the net current liabilities of HK\$1,133,997,000 as at 30 September 2009 (31 March 2009: HK\$133,957,000). The sharp decrease in current ratio and the significant net current liabilities recorded at 30 September 2009 were mainly due to the outstanding derivative warrants which were issued after the conversion of convertible bonds during the Current Period amounted to HK\$1,205,016,000, were recognised as current liabilities as at the period end date. This derivative warrant liabilities was temporary and created as a result of accounting treatment and had no effect on operation and cash flow. All outstanding derivative warrants were exercised after the balance sheet date and such item was credited as share capital and share premium in the balance sheet. Disregarding the effect of the derivative warrant liability amounted to HK\$1,205,016,000, the current ratio and net current assets position would have improved significantly to 1.68 and HK\$71,019,000 respectively.

Gearing ratio

The total borrowings as at 30 September 2009 amounted to approximately HK\$32,565,000, including: (1) borrowings of HK\$9,070,000 (2008: HK\$9,777,000) which were interest-bearing at 12% per annum; and (2) amount due to a director of a subsidiary of HK\$23,495,000 (2008: Nil) which was interest free. The gearing ratio of the Group, which was expressed as a percentage of total borrowings to shareholder's funds, as at 30 September 2009 cannot be calculated as the Group recorded a shareholders' deficit of HK\$990,490,000.

Financial resources

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



MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL REVIEW *(Continued)*

Capital structure

As at 30 September 2009, the Group recorded a shareholders' deficit of HK\$990,490,000. Such deficit is temporarily in nature and not resulted from operation. At 30 September 2009, HK\$15,000,000 warrants was still not yet exercised and recorded as a current liabilities amounted to HK\$1,205,016,000 in the balance sheet. When the warrants being exercised, such liabilities will be credited to share capital and share premium and the shareholders' deficit will change back to shareholders' equity. At the date of this report, all outstanding warrants had been exercised by the warrant holders and shareholders' deficit is no longer existed.

On 31 July 2009, share subdivision of all issued and unissued shares into 10 subdivided shares was approved by the shareholders. After the conversion of convertible bonds into ordinary shares, issue of shares from exercise of share options and conversion of warrant liabilities into ordinary shares during the Current Period, the issued shares increased to 17,751,310,160 shares at HK\$0.001 each.

In the Current Period, the value of the non-voting convertible preference shares, which represent the consideration to be paid for acquisition of Park Wealth, recognised in the financial statement at 31 March 2009 was restated to zero. Based on the management's best estimate as at 30 September 2009, Park Wealth Group for the year ending 31 December 2009 will be loss making and no Convertible Preference Shares will be issued.

Charges on assets

As at 30 September 2009, the Group had no charge on assets (2008: nil).

Contingent liabilities

As at 30 September 2009, the Group had no contingent liabilities (2008: Nil).



MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL REVIEW *(Continued)*

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 2009, the Group had approximately 11 and 399 employees in Hong Kong 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 in place which is designed to award employees for their performance. During the period ended 30 September 2009, 66,000,000 share options were granted to the directors and employees of the Group.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

Acquisition of a platinum mine

On 15 September 2009, the Group entered into an agreement to acquire at a total consideration of not less than US\$160,000,000 (approximately HK\$1,248,000,000) assuming the Group will acquire 51% attributable interest in Blue Ridge Platinum (Proprietary) Limited ("Blue Ridge") and not more than US\$188,235,294 (approximately HK\$1,468,235,293) assuming the Group will acquire 60% attributable interest in Blue Ridge (the "Acquisition") upon Completion.



MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES *(Continued)*

Acquisition of a platinum mine *(Continued)*

Blue Ridge is the sole legal and beneficial owner of a mine which is situated on the Blaauwbank Farm, approximately 30 kilometers southeast of Groblersdal, on the eastern limb of the Bushveld Complex, the Republic of South Africa. The mineral resource estimate in the mine is 9,200,000 ounces PGE (4E). The forecast annual production is approximately 124,500 ounces PGE (4E) (149,000 ounces PGE (6E)) per annum over an 18 year period. Development of the mine commenced in January 2007 and the first concentrate was shipped in early April 2009.

As additional time is required by the relevant professional parties engaged by the Group for the purpose of the acquisition to prepare the technical report in relation to the mine, the financial information of the companies to be acquired and the pro forma financial information of the enlarged Group, an application has been made to the Stock Exchange to extend the deadline for despatch of the circular to on or before 29 January 2010.

Acquisition of a gold mine

On 29 September 2009, the Group entered into an agreement to acquire 90% of the issued share of Eagle Mountain Holdings Limited ("Eagle Mountain"), which is the 100% beneficial owner of a company which hold the mining right of a gold mine in Kyrgyz Republic, at a consideration of USD20,000,000 (approximately HK\$156,000,000), of which US\$12,000,000 (approximately HK\$93,600,000) shall be satisfied by allotment and issue of shares of the Company at a issue price of HK\$1.28 per share, and of which US\$8,000,000 shall be satisfied by the payment of cash.

The gold mine is located in the Chatkal region of Jala-Abad Province in western Kyrgyz Republic. The estimated mineral resources in the Mine are approximately 97 tonnes of gold and approximately 1 million tonnes of copper.

On 20 November 2009, the Group successfully completed the acquisition of the 90% of the issued share capital of Eagle Mountain and 73,125,000 consideration shares of the Company with the nominal value of HK\$0.001 each was allotted and issued, and remaining consideration of US\$8,000,000 has been satisfied by the payment of cash by the Group.



MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES *(Continued)*

Disposal

There was no material disposal of subsidiaries during the Current Period.

FUTURE PLAN AND PROSPECTS

In order to diversify the business scope and maximize the income source of the Group, the Company has been actively seeking for new business opportunities with high potential growth rate.

With the general public in the PRC is becoming increasingly affluent and more conscious about safety of food and beverages after the exposure of incidents like “Sanlu milk scandal” and the contamination of bottled water in the PRC, the demand of clean and purified water is expected to increase significantly in both commercial and domestic markets in the PRC. The Directors are optimistic about the prospects of the direct drinking water machines.

Besides, in view of the increase in demand of natural resources and the increase in the prices of precious metals over the past years, the Directors are optimistic about the future prospects of precious metal. The Directors therefore believe that the acquisitions of the platinum mine and gold mine provide an opportunity for the Group to enhance investment returns for the Group.

In the Current Period, all convertible bonds issued by the company had been converted to ordinary shares and before the date of this report, all warrants issued as a result of conversion of the convertible bonds had been fully exercised by all warrant holders. Such moves showed that the substantial shareholder and other bondholder have great confidence in the future development of the Company.

With the strong support of the substantial shareholders and other shareholders, the management will continue to secure other high growth potential projects in the near future and promise to utilize the resources to maximize the profitability of the Group and generate satisfactory return to the shareholders.



ADDITIONAL INFORMATION

SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted on 17 September 2004 pursuant to a resolution passed by the Company's shareholders on 17 September 2004 for the primary purposes of providing incentives to any directors or full-time employees of the Company or any of its subsidiaries ("Eligible Employees") and will expire on 16 September 2014. Under the Scheme, the Board of Directors of the Company is authorised to grant options at a consideration of HK\$1 per option to the Eligible Employees to subscribe for shares in the Company.

The maximum number of shares issued or which may be issuable under the Scheme cannot exceed 10% of the issued share capital of the Company excluding any shares issued pursuant to the Scheme at the date of adoption. The number of shares in respect of which options granted and may be granted to any Eligible Employee is not permitted to exceed 30% of the aggregate number of shares for the time being issued and issuable under the Scheme.

The offer of a grant of share options may be accepted within 21 days from the date of the offer together with the payment of nominal consideration of HK\$1 per option by the grantee.

The exercisable period of an option is determined by the directors at their discretion. The expiry of the option may be determined by the Board of Directors of the Company which shall not later than the expiry day of the Scheme.

The exercise price is determined by the Directors of the Company, and will not be less than the greater of: (i) the closing price of the Company on the offer date; (ii) the average of the closing price of the Company's shares for the 5 trading days immediately preceding the offer of the options and (iii) the nominal value per share of the Company.



ADDITIONAL INFORMATION (Continued)

SHARE OPTION SCHEME (Continued)

The following set out the movements in the share options granted under the Scheme during the period ended 30 September 2009:

Category of participant	Exercise period	At 1 April 2009 (note 1)	Exercised during the period	Lapsed during the period	At 30 September 2009
Directors:					
In aggregate	17 July 2008 to 16 September 2014	12,000,000	(3,000,000)	(3,000,000)	6,000,000
	17 July 2009 to 16 September 2014	12,000,000	(3,000,000)	(3,000,000)	6,000,000
	17 July 2010 to 16 September 2014	12,000,000	–	(6,000,000)	6,000,000
		36,000,000	(6,000,000)	(12,000,000)	18,000,000
Other employees:					
In aggregate	17 July 2008 to 16 September 2014	15,999,980	–	–	15,999,980
	17 July 2009 to 16 September 2014	16,000,010	–	–	16,000,010
	17 July 2010 to 16 September 2014	16,000,010	–	–	16,000,010
		48,000,000	–	–	48,000,000
					66,000,000

Note:

- (1) The number of share option and the exercise price were adjusted on 3 August 2009 upon the resolution of the Share Subdivision was passed on the Special General Meeting held on 31 July 2009.

These options were granted on 17 July 2008 at an exercise price of HK\$0.532 (note 1) per ordinary share of the Company. 6,000,000 share options were exercised and 12,000,000 share options were lapsed during the six months ended 30 September 2009.

ADDITIONAL INFORMATION *(Continued)*

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30 September 2009, the interests and short positions of each Director and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which have been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions in which they have taken or deemed to have taken under such provisions of the SFO), or are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules, to be notified to the Company and the Stock Exchange are as follows:

(i) Long position in shares and underlying shares of the Company

Name of Director	Total number of Shares interested	Options to subscribe for Shares of the Company	Capacity in which interests are held	Interests as to % to the issued share capital of the Company
Yuen Leong	12,887,473,880 <i>(Note 1)</i>	–	Interest of a controlled corporation	72.60%
	–	9,000,000 <i>(Note 2)</i>	Beneficial owner	0.05%
Lam Man Kit Dominic	–	9,000,000 <i>(Note 2)</i>	Beneficial owner	0.05%

Notes:

- 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.
- 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) from 17 July 2008 to 16 September 2014.



ADDITIONAL INFORMATION (Continued)

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES (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	Family interest	Number of ordinary shares (long positions)	
					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 2009, 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 the SFO), 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 which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

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 Securities" above, at no time during the six months ended 30 September 2009 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' INTERESTS IN SECURITIES

As at 30 September 2009, the following persons or companies (other than directors or chief executive) who had interests or short positions in the shares or underlying shares of the Company as in the register of substantial shareholders required to be kept by the Company under section 336 of the SFO were as follows:

Long position:

Name	Capacity	Number of issued ordinary shares of the Company held	Approximate percentage of total number shareholding
Long Grand Limited <i>(Note 1)</i>	Beneficial owner	12,887,473,880	72.60%

Notes:

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

Save as disclosed above, no other person, other than the director of the Company, whose interests are disclosed under the heading "Directors' and Chief Executives' Interests in Securities" 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.

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, except for our Executive Director Mr. Yuen Leong, who has declared that he has fully complied with the provisions of the Model Code as set out in Appendix 10 of the Listing Rules apart from Rule A.3 of the Model Code as a result of Long Grand Limited, 30% of which is owned by him, converted HK\$60,000,000 convertible bond and took up of the warrants attached to the convertible bond on 14 May 2009, which falls within the blackout period for the announcement of the annual result for the year ended 31 March 2009. The conversion of convertible bond and taking up of warrants were mandatory as a result of the conversion of other bond holders. The waiver from strict compliance with Rule A.3 of the Model Code was granted by The Stock Exchange of Hong Kong Limited on 13 May 2009.



ADDITIONAL INFORMATION *(Continued)*

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities during the six months ended 30 September 2009.

AUDIT COMMITTEE

On 30 September 2009, 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 2009 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 2009 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. The independent review report from the auditors is set out in this interim report.

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 2009 except for the deviation from the code provision A.2.1.



ADDITIONAL INFORMATION *(Continued)*

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

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, 23 December 2009