CHAOYUE GROUP LIMITED
超越集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 00147)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

The board of directors (the "Board" or the "Directors") of Chaoyue Group Limited (the "Company") is pleased to announce 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, are as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Unaudited six months ended 30 September	
		2009	2008
	Notes	***HK$'000***	*HK$'000*
Continuing operations			
Turnover	*4*	**42,173**	–
Cost of sales		**(21,469)**	–
Gross profit		**20,704**	–
Other income, gains and losses		**5,706**	1,620
Distribution and selling expenses		**(14,223)**	–
Administrative and other expenses		**(30,699)**	(12,253)
Finance costs	*5*	**(2,786)**	(8,266)
Changes in fair value of derivative financial instruments		**9,878**	(149)
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		**(3,717,513)**	(19,048)
Income tax credit	*6*	**10,857**	–
Loss for the period from continuing operations		**(3,706,656)**	(19,048)
Discontinued operation			
Loss for the period from discontinued operation	*7*	**(57)**	(5,651)
Loss for the period	*8*	**(3,706,713)**	(24,699)

	Notes	Unaudited six months ended 30 September **2009** ***HK$'000***	2008 *HK$'000*
Other comprehensive income for the period			
Exchange differences on translation		**3**	–
Total comprehensive expense for the period		**(3,706,710)**	(24,699)
Loss per share	*9*		
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

	Notes	**Unaudited as at 30 September 2009**	Audited as at 31 March 2009 (Restated)
		HK$'000	*HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**105,406**	115,623
Intangible assets		**27,000**	73,214
Receivables in respect of disposal of property, plant and equipment		**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	*11*	**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	*12*	**52,551**	49,101
Amount due to a director of a subsidiary		**23,495**	25,255
Taxation payable		**785**	2,788
Borrowings	*13*	**9,070**	9,070
Warranty provision		**999**	950
Deferred income		**10,933**	28,135
Convertible bonds	*14*	**–**	172,802
Derivative financial instruments	*14*	**–**	19,665
Derivative warrant liabilities	*15*	**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
NON-CURRENT LIABILITIES			
Deferred income		**4,696**	4,904
Deferred taxation		**6,750**	18,304
		11,446	23,208
NET (LIABILITIES) ASSETS		**(990,490)**	31,672
CAPITAL AND RESERVES			
Share capital		**17,751**	3,370
(Deficit) reserves		**(1,008,241)**	28,302
TOTAL (DEFICIT) EQUITY		**(990,490)**	31,672

Notes:

1. BASIS OF PREPARATION

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

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 February 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 16 (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.

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.

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.

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

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	2008
	HK$'000	*HK$'000*
	(unaudited)	(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

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 identity 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 7).

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		
	Direct drinking water	**Purification equipment**	**Environmental engineering**	**Garment**	**Elimination**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'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)

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. 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

6. INCOME TAX CREDIT

	Six months ended 30 September	
	2009	2008
	HK$'000	*HK$'000*
	(unaudited)	(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 loss recognised on intangible asset of the Group.

7. DISCONTINUED OPERATION

Due to the continuous adverse operating environment as a result of the economic downturn since the second half of year 2008, the Group had encountered significant difficulties in obtaining orders from customers for its garment business which had ceased to generate meaningful return to the Group. In light of this, the management had resolved to abandon the garment business of the Group and hence had ceased to accept any new grament 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)

8. LOSS FOR THE PERIOD

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

	Continuing operation Six months ended 30 September		Discontinued operation Six months ended 30 September		Consolidated Six months 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)

9. 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

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	2008
	HK$'000	*HK$'000*
	(unaudited)	(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.

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.

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. 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 *(note)*	**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 5.76% per annum.

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 year	**1,546**	310
	8,908	16,098

12. TRADE AND OTHER PAYABLES

	30 September 2009	31 March 2009
	HK$'000	*HK$'000*
	(unaudited)	(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

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

13. 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.

14. 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.

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.

  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.

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	**Embedded derivatives**	**Total**
	HK$'000	*HK$'000*	*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	–	–	–

15. 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 would be 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.

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 *(note a)*	Lot 2 *(note b)*	Lot 2 *(note b)*	Lot 1 *(note a)*
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

16. 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 of which 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

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. 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.

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.

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.

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) and the current ratio dropped from 0.58 at 31 March 2009 to 0.13 at 30 September 2009. 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 derecognised, with a corresponding increase in 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.

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 announcement, 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).

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.

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.

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 announcement, 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.

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 was 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.

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.

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

PUBLICATION OF DETAILED INTERIM RESULTS

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

APPRECIATION

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

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

Hong Kong, 23 December 2009

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