# 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 2011

The board of directors (the "Board" or the "Directors") of Chaoyue Group Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2011 (the "Current Period"), together with the comparative figures, as follows:

### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | | **Unaudited** | |
|---|---|---|---|
| | | **Six months ended 30 September** | |
| | | **2011** | 2010 |
| | *NOTES* | ***HK$'000*** | *HK$'000* |
| Revenue | *3* | **14,259** | 15,747 |
| Cost of sales | | **(5,408)** | (22,981) |
| Gross profit (loss) | | **8,851** | (7,234) |
| Other income, gains and losses | *4* | **288** | 2,723 |
| Distribution and selling expenses | | **(1,171)** | (6,143) |
| Administrative expenses | | **(27,498)** | (88,698) |
| Finance costs | *5* | **(1,249)** | (553) |
| Impairment loss on property, plant and equipment | | **–** | (63,302) |
| Impairment loss on intangible assets | | **–** | (23,516) |
| Impairment loss on goodwill | | **–** | (27,085) |
| Loss before taxation | | **(20,779)** | (213,808) |
| Income tax (expense) credit | *6* | **(26)** | 6,456 |
| Loss for the period | *7* | **(20,805)** | (207,352) |
| **Other comprehensive income for the period** | | | |
| Exchange differences on translation | | **(629)** | (721) |
| Total comprehensive expense for the period | | **(21,434)** | (208,073) |

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

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | NOTES | **Unaudited as at 30 September 2011** *HK$'000* | Audited as at 31 March 2011 *HK$'000* |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | **14,611** | 16,281 |
| Intangible assets | | **128,235** | 131,770 |
| Prepayment | *10* | **3,575** | – |
| | | **146,421** | 148,051 |
| CURRENT ASSETS | | | |
| Inventories | | **972** | 1,147 |
| Amounts due from customers for contract work | | **–** | 1,556 |
| Trade and other receivables | *10* | **11,410** | 10,325 |
| Bank balances and cash | | **57,598** | 81,474 |
| | | **69,980** | 94,502 |
| CURRENT LIABILITIES | | | |
| Amounts due to customers for contract work | | **953** | 923 |
| Trade and other payables | *11* | **74,797** | 77,634 |
| Tax payable | | **2,607** | 2,508 |
| Warranty provision | | **1,537** | 1,428 |
| Deferred income | | **9,795** | 9,304 |
| | | **89,689** | 91,797 |
| NET CURRENT (LIABILITIES) ASSETS | | **(19,709)** | 2,705 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **126,712** | 150,756 |
| NON-CURRENT LIABILITIES | | | |
| Amount due to a director of a subsidiary | *12* | **21,401** | 20,061 |
| Borrowings | *13* | **9,811** | 9,498 |
| Deferred income | | **13,098** | 17,361 |
| | | **44,310** | 46,920 |
| | | **82,402** | 103,836 |
| CAPITAL AND RESERVES | | | |
| Share capital | | **18,824** | 18,824 |
| Reserves | | **59,763** | 80,629 |
| Equity attributable to owners of the Company | | **78,587** | 99,453 |
| Non-controlling interests | | **3,815** | 4,383 |
| | | **82,402** | 103,836 |

*Notes:*

## 1. BASIS OF PREPARATION

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

The functional currency of Chaoyue Group Limited (the "Company") is Renminbi ("RMB") as the Company and its subsidiaries (collectively referred to as the "Group") were having its operations mainly in the People's Republic of China (the "PRC"). The condensed consolidated financial statements are presented in Hong Kong Dollars ("HKD"). The directors of the Company consider that HKD is the appropriate presentation currency as the management of the Company controls and monitors the performance and financial position of the Group by using HKD.

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

## 2. SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2011.

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

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

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

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

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

[1] Effective for annual periods beginning on or after 1 July 2011
[2] Effective for annual periods beginning on or after 1 January 2013
[3] Effective for annual periods beginning on or after 1 January 2012
[4] Effective for annual periods beginning on or after 1 July 2012

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

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

## 3. REVENUE AND SEGMENT INFORMATION

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

| | **Six months ended 30 September** | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) |
| Sale of goods | **3,096** | 2,906 |
| Contract revenue | **16** | 8,242 |
| Rental income *(Note)* | **11,147** | 3,750 |
| Royalty fee income | **–** | 849 |
| | **14,259** | 15,747 |

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

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

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

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

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

*Six months ended 30 September 2011*

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

*Six months ended 30 September 2010*

| | Direct drinking water *HK$'000* | Purification equipment *HK$'000* | Environmental engineering *HK$'000* | Mining *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|
| REVENUE | | | | | |
| External sales | 4,599 | 2,906 | 8,242 | – | 15,747 |
| RESULT | | | | | |
| Segment result | (177,937) | (3,971) | (363) | (13,128) | (195,399) |
| Unallocated income | | | | | 92 |
| Unallocated corporate expenses | | | | | (17,948) |
| Finance costs | | | | | (553) |
| Loss before taxation | | | | | (213,808) |
| *Amounts included in the measure of segment loss:* | | | | | |
| Allowance on bad and doubtful debts, net | 39,153 | – | 660 | – | 39,813 |
| Impairment loss on advances to suppliers | 12,338 | – | – | – | 12,338 |
| Amortisation on intangible assets | 3,484 | – | – | 6,318 | 9,802 |
| Expected loss on construction contract recognised in cost of sales | – | – | 2,190 | – | 2,190 |
| Impairment loss on property, plant and equipment | 63,302 | – | – | – | 63,302 |
| Impairment loss on intangible assets | 23,516 | – | – | – | 23,516 |
| Impairment loss on goodwill | 27,085 | – | – | – | 27,085 |

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

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

## 4. OTHER INCOME, GAINS AND LOSSES

| | Six months ended 30 September | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) |
| Bank interest income | **164** | 92 |
| Sale of scrap materials | **10** | 2,514 |
| Others | **114** | 117 |
| | **288** | 2,723 |

## 5. FINANCE COSTS

| | Six months ended 30 September | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) |
| Interest on borrowing wholly repayable within five years | **580** | 553 |
| Imputed interest expense on non-current interest free amount due to a director of a subsidiary *(note 12)* | **669** | – |
| | **1,249** | 553 |

## 6. INCOME TAX (EXPENSE) CREDIT

| | Six months ended 30 September | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) |
| Current tax- PRC Enterprise Income Tax | **(26)** | (294) |
| Deferred taxation | **–** | 6,750 |
| | **(26)** | 6,456 |

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

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

The Group's PRC subsidiary, Shanghai Comfort Environment and Science Company Limited ("Shanghai Comfort"), which is registered in Shanghai Pudong New Area and regarded as advanced technology enterprises by local tax bureau. Shanghai Comfort is entitled to the PRC income tax at concessionary rate of 15% from year 2008 to 2010. The applicable EIT rate for the Group's other PRC subsidiaries is 25%.

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

## 7. LOSS FOR THE PERIOD

Loss for the period has been arrived at after charging:

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

## 8. DIVIDENDS

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

## 9. LOSS PER SHARE

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

| | Six months ended 30 September | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) |
| **Loss** | | |
| Loss for the period attributable to owners of the Company for the purpose of loss per share | **19,969** | 206,372 |
| **Number of shares** | | |
| Weighted average number of shares for the purpose of loss per share | **18,824,435,160** | 18,824,435,160 |

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

## 10. TRADE AND OTHER RECEIVABLES

| | 30 September 2011 HK$'000 (unaudited) | 31 March 2011 HK$'000 (audited) |
|---|---|---|
| Trade receivables | **3,389** | 7,158 |
| Advances to suppliers | **–** | 595 |
| Other receivables | **1,814** | 685 |
| Prepayments and deposits | **1,137** | 1,887 |
| Prepaid allowances *(Note)* | **8,645** | – |
| | **14,985** | 10,325 |

| | 30 September 2011 HK$'000 (unaudited) | 31 March 2011 HK$'000 (audited) |
|---|---|---|
| Analysis of trade and other receivables for reporting purposes as: | | |
| – Non-current asset in respect of prepaid allowances *(Note)* | **3,575** | – |
| – Current asset | **11,410** | 10,325 |
| | **14,985** | 10,325 |

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

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

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

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

## 11. TRADE AND OTHER PAYABLES

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

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

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

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

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

| | 30 September 2011 HK$'000 (unaudited) | 31 March 2011 HK$'000 (audited) |
|---|---|---|
| Xiao Shu (肖述) | **21,401** | 20,061 |

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

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

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

## 13. BORROWINGS

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

## MANAGEMENT DISCUSSION AND ANALYSIS

## OVERALL RESULTS

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

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

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

## REVIEW OF OPERATIONS

### SH Comfort Group

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

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

### Gold mine

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

## MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

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

## FINANCIAL REVIEW

### Liquidity

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

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

### Gearing ratio

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

### Financial resources

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

**Capital structure**

There was no change in capital structure during the Current Period. As at 30 September 2011, the Group had issued 18,824,435,160 shares of ordinary shares and 214,637,160 shares of Non-voting Convertible Preference Shares and recorded a shareholders' equity of HK78,587,000 (31 March 2011: HK$99,453,000).

**Charges on assets**

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

**Contingent liabilities**

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

**Foreign exchange exposure**

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

## EMPLOYMENT AND REMUNERATION POLICY

As at 31 March 2011, the Group had approximately 12, 12 and 19 employees in Hong Kong, Kyrgyzstan and the PRC respectively. The employees' salaries are reviewed and adjusted annually based on their performance and experience. The Group's employee benefits include performance bonus, medical scheme, mandatory provident fund for Hong Kong employees, social insurance packages for the PRC employees and education subsidy to encourage continuous professional development of staff. The Group also has a discretionary share option scheme which is designed to award employees for their performance. No share option was granted during the Current Period and there were 66,000,000 share options granted to the directors and employees of the Group as at 30 September 2011.

## FUTURE PLAN AND PROSPECTS

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

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

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

## MODEL CODE FOR DIRECTORS' DEALING IN SECURITIES

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

## PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S SHARES

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's securities during the six months ended 30 September 2011.

## AUDIT COMMITTEE

On 30 September 2011, the Audit Committee of the Company comprised of three Independent Non-executive Directors, namely, Mr Yap Yung (the Chairman), Dr Lam Man Kit, Dominic and Mr. Zhang Guang Sheng. The audit committee has reviewed the unaudited interim financial information for the six months ended 30 September 2011 and discussed with the management the accounting principle and practice adopted by the Group, internal controls and financial reporting matters of the Group.

At the request of the Audit Committee, the auditors of the Company, Deloitte Touche Tohmatsu, had carried out a review of the unaudited interim financial information for the six months ended 30 September 2011 in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The independent review report from the auditors will be set out in the 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 2011 except for the deviation from the code provision A.2.1.

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

## 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, 24 November 2011

*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.*