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 2008

The board of directors (the "Board" or the "Directors") of Chaoyue Group Limited (the "Company") is pleased to announce that the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2008, together with the comparative figures for the corresponding period of the previous year, are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited six months ended 30 September	
		2008	2007
	Notes	***HK$'000***	*HK$'000*
TURNOVER	*2*	**43,196**	92,978
Cost of sales		**(42,473)**	(82,413)
Gross profit		**723**	10,565
Other income		**2,198**	1,234
Selling and distribution expenses		**(745)**	(524)
Administrative expenses		**(16,294)**	(5,023)
(LOSS)/PROFIT FROM OPERATING ACTIVITIES	*3*	**(14,118)**	6,252
Gain on disposal of subsidiaries		**–**	755
Finance costs	*4*	**(10,432)**	–
Change in fair value of derivative financial instruments		**(149)**	–
(LOSS)/PROFIT BEFORE TAXATION		**(24,699)**	7,007
Taxation	*5*	**–**	(541)
(LOSS)/PROFIT FOR THE PERIOD		**(24,699)**	6,466
(LOSS)/EARNINGS PER SHARE			
Basic and diluted	*7*	**(7.33) cents**	3.87 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	**Unaudited as at 30 September 2008** *HK$'000*	Audited as at 31 March 2008 *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**348**	2,374
CURRENT ASSETS			
Inventories		**–**	25,118
Trade and other receivables	*8*	**701**	14,771
Bank balances and cash		**255,254**	265,532
		255,955	305,421
CURRENT LIABILITIES			
Trade and other payables	*9*	**(1,685)**	(18,984)
Taxation payable		**(99)**	(429)
Other borrowing-secured	*10*	**(9,777)**	(36,000)
Derivative financial instruments	*11*	**(22,380)**	(22,231)
		(33,941)	(77,644)
NET CURRENT ASSETS		**222,014**	227,777
TOTAL ASSETS LESS CURRENT LIABILITIES		**222,362**	230,151
NON-CURRENT LIABILITIES			
Deferred taxation		**–**	(19)
Convertible bonds	*11*	**(168,475)**	(160,209)
		(168,475)	(160,228)
NET ASSETS		**53,887**	69,923
CAPITAL AND RESERVES			
Share capital		**3,370**	3,370
Reserves		**50,517**	66,553
TOTAL EQUITY		**53,887**	69,923

Notes:

1. **Accounting Policies**

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2008.

In the current period, the Group has applied, for the first time, new amendments and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 April 2008. The adoption of these new HKFRSs had no material effect on the 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 the new standards or interpretations that have been issued but are not yet effective. The adoption of Hong Kong Financial Reporting Standard 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards or interpretation will have no material impact on the results and the financial position of the Group.

2. **Turnover and Segment Information**

Business segments

The Group's entire revenue and more than ninety percent of the Group's assets are contributed by its garment business during the periods ended 30 September 2008 and 2007 and therefore no business segment analysis is presented.

Geographical segments

The Group's operations are located in Hong Kong. All the Group's revenue and contribution to results were derived from the sales to the United States of America.

3. (Loss)/Profit from Operating Activities

	Unaudited six months ended 30 September 2008 *HK$'000*	2007 *HK$'000*
(Loss)/Profit from operating activities has been arrived at after charging:		
Directors' emoluments	**600**	542
Other staff's costs	**2,134**	1,620
Share based payment	**8,663**	–
Other staff's retirement benefit scheme contributions	**63**	63
	11,460	2,225
Allowance for inventories	**–**	1,967
Depreciation	**601**	637
Textile quota expenses	**530**	2,059
and after crediting:		
Bank interest income	**1,896**	1,179

4. Finance Cost

	Unaudited six months ended 30 September 2008 *HK$'000*	2007 *HK$'000*
Interest on other borrowing – secured	**2,166**	–
Effective interest on convertible bonds	**8,266**	–
	10,432	–

5. Taxation

	Unaudited six months ended 30 September	
	2008	2007
	HK$'000	*HK$'000*
Current tax – Hong Kong	**–**	(560)
Deferred taxation	**–**	19
	–	(541)

Hong Kong Profits Tax is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which includes the reduction in corporate profit tax rate by 1% to 16.5% effective from the year of assessment 2008-2009. The effect of such decrease has been reflected in measuring the current and deferred tax for the six months ended 30 September 2008. The estimated average annual tax rate used is 16.5% (2007: 17.5%) for the six months ended 30 September 2008.

6. Dividends

No dividends were paid, declared or proposed during the period ended 30 September 2008. The directors do not recommend the payment of an interim dividend.

On 17 September 2007, dividend of HK$0.03 per share and HK$0.29 per share totalling HK$53,450,000 were paid to shareholders as the final dividend and special dividend for 2007, respectively.

7. (Loss)/Earnings Per Share

The calculation of the basic (loss)/earnings per share attributable to the equity holders of the Company for the period is based on the following data:

	Unaudited six months ended 30 September	
	2008	2007
	HK$'000	*HK$'000*
(Loss)/Earnings:		
(Loss)/Earnings for the purpose of basic earnings per share	**(24,699)**	6,466
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	**337,031,016**	167,031,016

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, no diluted earnings per share for share options has been presented because the exercise price of the Company's option was higher than the average market price of shares for the period.

8. Trade and Other Receivables

The following is an aged analysis of trade receivables at the balance sheet date:

	Unaudited as at 30 September 2008	Audited as at 31 March 2008
	HK$'000	*HK$'000*
0 – 30 days	**–**	9,553

Apart from payment by letter of credit, settlement is generally on an open account basis with credit terms ranging from 30 days to 60 days following the month of sale.

It is the policy of the Group to allow settlement on an open account basis only by customers who have good repayment records and well-established relationships with the Group. The credit period for such customers is reviewed periodically in response to the financial conditions, orders on hand and other credit information.

9. Trade and Other Payables

The following is an aged analysis of trade payables at the balance sheet date:

	Unaudited as at 30 September 2008	Audited as at 31 March 2008
	HK$'000	*HK$'000*
0 – 30 days	**–**	13,415
31 – 60 days	**–**	1,663
61 – 90 days	**–**	4
Over 90 days	**163**	53
	163	15,135

10. Other Borrowing – Secured

The Group borrowed HK$36,000,000 on 10 October 2007, which carry interest at market rates of 1% per month with effective interest rate of 12% per annum. During the period ended 30 September 2008, the Group early repaid approximately HK$26,223,000 of this borrowing.

Interest is payable monthly and principal amount mature and repayable on 9 March 2009. This borrowing is secured by shares of a subsidiary of the Group.

11. Convertible Bonds

On 24 December 2007, the Company issued zero coupon convertible bonds denominated in HK$ in an aggregate principal amount of HK$124,500,000 to a substantial shareholder, Long Grand Limited, ("Subscription Bond") and HK$60,000,000 to outsiders ("Placing Bond"), respectively (collectively known as the "Convertible Bonds"). The Convertible Bonds will be matured 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, right issues, diffractions and other dilutive events. If the convertible bonds have not been converted, they will be redeemed on 24 December 2009 at their principal amount.

Other principal terms of the Bonds:

Upon the Convertible Bonds holders exercising the conversion rights attached to the Convertible Bonds, the Company shall issue the warrants to subscribe for new ordinary shares of the Company at an subscription price of HK$0.15 per share at anytime from the date of issue to the date falling on the first anniversary of the date of issue (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 placing warrants.

The Company can early redeem the Convertible Bonds at 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 Convertibles Bonds contain the following components that are required to be separately accounted for:

(i) 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 represents the Company's option to early redeem all or part of the Convertible Bonds; and

(b) The fair value of conversion option represents the option of the bondholders to convert the Convertible Bonds into equity of the Company at a conversion price of HK$0.15 and the issuance of Warrants by way of bonus issue for every four Conversion shares with an exercise price of HK$0.15.

No conversion right have been exercised during the period from the date of issue to the balance sheet date.

The liability component of the Convertible Bonds and the net balance of the fair value of the embedded derivatives as at 30 September 2008 were HK$168,475,000 and HK$22,380,000 respectively.

During the period ended 30 September 2008, HK$8,266,000 finance cost, which was accrued based on the effective interest rate of the liability component of the Convertible Bonds, and a loss on change in fair value of the embedded derivatives of the Convertible Bonds of HK$149,000 were recognized in the income statement.

12. Share Option Scheme

The total number of shares issued upon the exercise of all options granted under the Share Option Scheme is 8,400,000 shares as at 30 September 2008. The estimated fair value of the options at the date of grant is approximately HK$20,564,201. The Group recognised the total expense of approximately HK$8,663,000 for the period in relation to share options granted by the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

For the six-month period ended 30 September 2008 (the "Current Period"), turnover of the Group which represented the sales of garment products, decreased significantly to approximately HK$43,196,000 (2007: approximately HK$92,978,000). The 54% drop as compared with the corresponding period in 2007 was mainly due to reduction in the number of orders from the Group's customers in the United States (the "US") as a result of the economic downturn.

The gross profit margin also decreased significantly from 11.4% in 2007 to 1.67% in 2008 and the gross profit recorded in the Current Period was approximately HK$723,000 (2007: approximately HK$10,565,000). Such a sharp decrease in gross profit was mainly due to the combined effect of the decrease in sales price as a result of decrease in demand and the significant appreciation in Renminbi which had caused an escalation in the costs of sales.

As a result of the adverse operating environment faced by the Group, the operating activities of the Group recorded a loss of approximately HK$14,118,000 in the Current Period (2007: profit of approximately HK$6,252,000). Such loss was mainly due to increase in overhead expenses of the Group which comprised primarily salary and allowances of HK$11,460,000 (2007: HK$2,225,000), rental expenses of HK$974,000 (2007: HK$460,000), legal and professional fee of HK$506,000 (2007: HK$671,000) and other administrative expenses for the Current Period. The significant increase in salary and allowances in the Current Period was because the share-based payments in relation to the issue of 8,400,000 share options to the directors and employees of the Group which amounted to approximately HK$8,663,000.

In addition to the interests incurred in the secured other borrowing and effective interest on convertible bonds amounted to HK$2,166,000 (2007: nil) and HK$8,266,000 (2007: nil), respectively and the loss on change in fair value of derivative financial instruments amounted to HK$149,000 (2007: nil), a loss of approximately HK$24,699,000 was recorded for the Current Period (2007: a profit of approximately HK$6,466,000) and the loss per share for the Current Period was HK7.33 cents (2007: earnings per share HK3.87 cents).

Financial Position, Liquidity and Capital Structure

As a result of the reduction of order from the customers in the US, the garment trading business of the Group was scaled down substantially for cost saving purpose. As at 30 September 2008, there was no inventories and trade receivables balances, and the trade payable balance was approximately HK$163,000 only.

Although the Group had experienced a hard time, the Group's financial position remained strong, allowing the Group to rely principally on its internal resources to fund its operations and investment activities. The cash and cash equivalents of the Group as at 30 September 2008 amounted to approximately HK$255,254,000 and the working capital amounted to approximately HK$222,014,000.

In October 2007, the Group borrowed a HK$36,000,000 secured loan in order to facilitate the expansion of the garment business. The loan was secured by the shares of a subsidiary of the Group and borne an interest of 1% per month. However, such funding was not fully utilized due to the unexpected reduction of orders. In order to reduce the finance cost of the Group, the loan was repaid partially during the Current Period and the remaining outstanding balance as at 30 September 2008 was approximately HK$9,777,000.

In November 2007, the Group issued two-year zero coupon convertible bonds with repayable principal amount of HK$184,500,000. The bonds could be convertible into shares ("Conversion Shares") at an initial conversion price of HK$0.15 per share (subject to adjustments) before 24 December 2009. Upon conversion of the convertible bonds, one warrant will be issued for every four Conversion Shares subscribed. The subscription price of the warrants is HK$0.15 per share (subject to adjustments) at anytime from the date of issue to the date falling on the first anniversary of the date of issue. No conversion rights have been exercised from the date of issue to 30 September 2008 and no Conversion Shares have been issued.

The total borrowings (outstanding repayable principal balance of the convertible bonds and the secured loan) as at 30 September 2008 amounted to approximately HK$194,277,000. The gearing ratio of the group, which was expressed as a percentage of total borrowings to shareholders' funds, as at 30 September 2008 was 3.60. The management considered that the gearing ratio would reduce to a lower level after the convertible bonds are being converted in the future.

In the Current Period, there was no movement in the issued capital of the Company. The number of issued share capital of the Company was 337,031,016 shares at 30 September 2008. Total equity comprised primarily the share capital, share premium account, contributed surplus and other reserves which, after deducting the accumulated losses, amounted to approximately HK$53,887,000.

Since the majority of the Group's transactions, monetary assets and liabilities are denominated in Hong Kong dollars and US dollars, with relatively stable Hong Kong linked exchange rate between United States dollar and Hong Kong dollar, the Group's exposure to foreign currency risk is insignificant.

Future Plan and Prospects

The Group is now facing a harsh environment as a result of drop in consumption power in the US and other markets as a result of the recent financial tsunami prompted by the sub-prime mortgage crisis in the US and spread out globally. Such adverse environment is not expected to improve in the near term and in the second half of the year. With our professional expertise and experience in the garment business, the management team endeavours to try our best to maintain our competitiveness in this industry during such hard time. We plan to secure some sub-contractors in different provinces in the People's Republic of China (the "PRC") to reduce the cost of sales to maintain our competitiveness. In the meantime, the management team will explore new export markets other than the US, hoping to minimise the adverse effect of the unfavourable US market on the Group.

In order to diversify the business scope and maximize the income source of the Group, the Board will continue looking for new business opportunities. On 11 October 2008, the Group conditionally agreed to acquire 100% issued share capital of Park Wealth International Limited ("Park Wealth") (the "Acquisition"), whose principal asset is the holding of a 100% equity interest in Shanghai Comfort Group, for an aggregate consideration of HK$800,000,000 ("Consideration").

The Consideration shall be satisfied by non-redeemable convertible preference shares to be issued by the Company with the aggregate face value of HK$800,000,000. The Consideration is subject to downward adjustment if the audited profits of Park Wealth for the year ending 31 December 2009 do not meet the minimum guaranteed profit of HK$100,000,000. The preference shares are convertible into new ordinary shares of the Company at the conversion price of HK$4.0 per shares (subject to adjustments).

Shanghai Comfort Group is principally engaged in the manufacturing and sale of water purification system and production and installation of air purification and sewage treatment facilities. The Directors consider that the growth potential of water and air purification business in the PRC is immense. In 2003, the Ministry of Health of the PRC implemented 食品安全行動計劃 (Food Safety Action Plan*) which stipulate, among other things, hygiene standard in food production and processing. Subsequently, 中華人民共和國食品安全法 (草案) (Draft Food Safety Law*) was passed in October 2007 and as a result of these policies and rules, it is expected that food manufacturers and processors will be required to install additional purification system to improve the hygiene and sterilization facilities in order to meet the new standard. In addition, the State Council released the 節能減排綜合性工作方案 (Comprehensive Working Scheme for Energy Conservation and Reduction of Pollution*) in June 2007 which is expected to promote investment in water and sewage treatment and infrastructure in the next 2 to 3 years. The Directors consider that the above policies will create demand for the products of the Shanghai Comfort Group from industrial users.

On the other hand, the general public in the PRC has become increasingly affluent and more conscious about safety of food and beverages. It is expected that water purification equipment for office and domestic use will become more popular in the PRC, catching up with the high penetration rate in other developed countries such as the United States. Based on the sales record of the Shanghai Comfort Group, installation of water purification machines to office, household units or residential estates has increased significantly from over 5,000 units in the year of 2007 to over 25,000 units in the first 8 months of 2008.

In conjunction with the Acquisition, the Group entered into a loan agreement on the same date to provide a facility in an aggregate principal amount of up to HK$80,000,000 to Park Wealth to speed up the expansion of the business of Shanghai Comfort Group. The facility bears interest at the prime lending rate for Hong Kong dollars quoted by the Hongkong and Shanghai Banking Corporation Limited from time to time and is secured by (i) the guarantee executed by the beneficial owners of the vendors in favour of the Group; and (ii) a share charge in favour of the Group executed by each vendors over their shares in Park Wealth to be sold to the Group.

The Directors are optimistic about the prospects of the business and are confident that the Acquisition would generate satisfactory return to the Group. In the meantime, the Board will continue to secure other investment projects with high growth potential in the near future in order to maximize the value of the Company for our shareholders.

* *For identification purpose only*

Employment and Remuneration Policy

As at 30 September 2008, the Group had 15 employees, whose salaries are reviewed and adjusted annually based on their performance and experience. The Group's employee benefits include mandatory provident fund and an education subsidy to encourage staff's professional development. The Group also has a discretionary share option scheme in place designed to award employees for their performance. During the current period, 8,400,000 share options were granted to the directors and employees of the Group.

CONTINGENT LIABILITY

The Group did not have any significant contingent liability as at the balance sheet date.

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, 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 2008.

AUDIT COMMITTEE

During the Current Period, the audit committee of the Company comprised three Independent Non-executive Directors, namely, Mr. Chan Wai Dune (the Chairman), Ms. Chen Ye and Dr. Lam Man Kit, Dominic. The audit committee has reviewed the unaudited interim financial information for the six months ended 30 September 2008 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 2008 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 the interim report to be released.

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 2008 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 considers that such arrangement allows for effective and efficient planning and implementation of business decisions and strategies. Moreover, all major decisions are made in consultation with members of the Board and appropriate board committees. The Board believes that the current structure do not impair the balance of power and authority between the Board and the management of the Company.

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, 12 December 2008

As at the date of this announcement, the Board comprises Mr. Yuen Leong as executive Director; and Ms. Chen Ye, Mr. Chan Wai Dune and Dr. Lam Man Kit, Dominic as independent non-executive Directors.