

Chaoyue Group Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 00147)

Interim Report 2008/09



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Director

Yuen Leong

Independent Non-Executive Directors

Chen Ye

Chan Wai Dune

Lam Man Kit, Dominic

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Chung Yau Tong

AUDITOR

Deloitte Touche Tohmatsu

AUDIT COMMITTEE

Chan Wai Dune (*Chairman*)

Chen Ye

Lam Man Kit, Dominic

REMUNERATION COMMITTEE

Lam Man Kit, Dominic (*Chairman*)

Chen Ye

Chan Wai Dune

NOMINATION COMMITTEE

Chen Ye (*Chairman*)

Chan Wai Dune

Lam Man Kit, Dominic

REGISTERED OFFICE

Clarendon House

Church Street

Hamilton HM 11

Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 2302, 23rd Floor

China Insurance Group Building

141 Des Voeux Road Central

Hong Kong

PRINCIPAL SHARE REGISTRAR

Butterfield Fulcrum Group (Bermuda) Limited

Rosebank Centre

11 Bermudiana Road

Pembroke, HM 08

Bermuda

HONG KONG BRANCH SHARE REGISTRAR

Tricor Secretaries Limited

26/F, Tesbury Centre

28 Queen's Road East

Hong Kong

STOCK CODE

00147

COMPANY WEBSITE

www.chaoyuehk.com



CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

	Notes	Six months ended	
		30.9.2008 HK\$'000 (Unaudited)	30.9.2007 HK\$'000 (Unaudited)
Revenue	3	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		(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	5	(24,699)	7,007
Taxation	6	–	(541)
(Loss)/Profit for the period		(24,699)	6,466
(Loss)/Earnings per share – Basic and diluted	8	HK (7.33) cents	HK 3.87 cents

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 SEPTEMBER 2008

	Notes	30.9.2008 HK\$'000 (Unaudited)	31.3.2008 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	9	348	2,374
Current assets			
Inventories		–	25,118
Trade and other receivables	10	701	14,771
Bank balances and cash		255,254	265,532
		255,955	305,421
Current liabilities			
Trade and other payables	11	(1,685)	(18,984)
Taxation payable		(99)	(429)
Other borrowing – secured	12	(9,777)	(36,000)
Derivative financial instruments	15	(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	15	(168,475)	(160,209)
		(168,475)	(160,228)
		53,887	69,923
Capital and reserves			
Share capital	13	3,370	3,370
Reserves		50,517	66,553
Total equity		53,887	69,923

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000 (note)	Capital redemption reserve HK\$'000	Share option reserve HK\$'000	Translation reserve HK\$'000	Accumulated profits (losses) HK\$'000	Total HK\$'000
At 1 April 2007 (audited)	1,670	-	52,385	3,781	-	694	27,909	86,439
Profit for the period	-	-	-	-	-	-	6,466	6,466
Released upon disposal of subsidiaries	-	-	-	-	-	(694)	-	(694)
Total recognised income for the period	-	-	-	-	-	(694)	6,466	5,772
Dividend paid	-	-	(730)	-	-	-	(52,720)	(53,450)
At 30 September 2007 (unaudited)	1,670	-	51,655	3,781	-	-	(18,345)	38,761
At 1 April 2008 (audited)	3,370	23,685	51,655	3,781	-	-	(12,568)	69,923
Loss for the period and total recognised expense for the period	-	-	-	-	-	-	(24,699)	(24,699)
Recognition of equity-settled share based payments	-	-	-	-	8,663	-	-	8,663
At 30 September 2008 (unaudited)	3,370	23,685	51,655	3,781	8,663	-	(37,267)	53,887

Note: The contributed surplus of the Group represents the difference between the nominal value of the shares and share premium of the then holding company and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation on 25 May 1993, together with the amounts transferred from share capital and share premium account as a result of the capital reduction which took place in August 2001, less dividends paid, amounts utilised on redemption of shares and amount eliminated against accumulated losses.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

	Six months ended	
	30.9.2008 HK\$'000 (Unaudited)	30.9.2007 HK\$'000 (Unaudited)
Net cash from operating activities	16,188	26,848
Net cash from investing activities	1,923	10,116
Financing activities		
Repayment of other borrowing	(28,389)	–
Dividend paid	–	(53,450)
Cash used in financing activities	(28,389)	(53,450)
Net decrease in cash and cash equivalents	(10,278)	(16,486)
Cash and cash equivalents at the beginning of the period	265,532	44,182
Effect of foreign exchange rate changes	–	97
Cash and cash equivalents at the end of the period, represented by bank balances and cash	255,254	27,793



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

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 (the Listing Rules) and with Hong Kong Accounting Standard 34 (“HKAS 34”) “Interim Financial Reporting”.

2. PRINCIPAL 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.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. REVENUE AND BUSINESS SEGMENTS

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.

4. FINANCE COST

	Six months ended	
	30.9.2008	30.9.2007
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on other borrowing – secured	2,166	–
Effective interest on convertible bonds	8,266	–
	10,432	–



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. (LOSS)/PROFIT BEFORE TAXATION

	Six months ended	
	30.9.2008 HK\$'000 (Unaudited)	30.9.2007 HK\$'000 (Unaudited)
(Loss)/Profit before taxation 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



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. TAXATION

	Six months ended	
	30.9.2008 HK\$'000 (Unaudited)	30.9.2007 HK\$'000 (Unaudited)
Current tax – Hong Kong	–	560
Deferred taxation	–	(19)
	–	541

Hong Kong Profits Tax is recognised based on management's best estimate of the 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.

7. 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. (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:

	Six months ended	
	30.9.2008 HK\$'000 (Unaudited)	30.9.2007 HK\$'000 (Unaudited)
(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, the diluted earnings per share for the periods do not adjust for the effects of the 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 periods.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. PROPERTY, PLANT AND EQUIPMENT

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

	<i>HK\$'000</i>
Carrying values as at 1 April 2008	2,374
Additions	23
Depreciation	(601)
Disposal of property, plant and equipment	(1,448)
Carrying values as at 30 September 2008	348

10. TRADE AND OTHER RECEIVABLES

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

	30.9.2008 <i>HK\$'000</i> (Unaudited)	31.3.2008 <i>HK\$'000</i> (Audited)
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.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. TRADE AND OTHER PAYABLES

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

	30.9.2008 HK\$'000 (Unaudited)	31.3.2008 HK\$'000 (Audited)
0 – 30 days	–	13,415
31 – 60 days	–	1,663
61 – 90 days	–	4
Over 90 days	163	53
	163	15,135

12. 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.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. SHARE CAPITAL

	Number of ordinary shares	Amount <i>HK\$'000</i>
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 April 2007, 30 September 2007, 31 March 2008, 1 April 2008 and 30 September 2008	50,000,000,000	500,000
Issued and fully paid:		
At 1 April 2007	167,031,016	1,670
Issue of shares	170,000,000	1,700
At 31 March 2008, 1 April 2008 and 30 September 2008	337,031,016	3,370

14. SHARE OPTION SCHEME

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

The 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 17 July 2008 the date of grant, is approximately HK\$20,564,201.



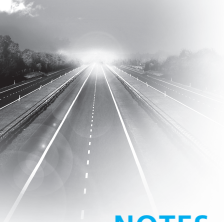
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. SHARE OPTION SCHEME (Continued)

Details of the share options granted under the Scheme during the period ended 30 September 2008 are as follows:

Category of Grantee	Date of grant	Exercise price per share	Exercisable period	Vesting date	Options granted during the period and at 30.9.2008
Directors	17 July 2008	HK\$5.32	17/7/2008 – 16/9/2014	17/7/2008	1,200,000
			17/7/2009 – 16/9/2014	17/7/2009	1,200,000
			17/7/2010 – 16/9/2014	17/7/2010	1,200,000
					3,600,000
Employees	17 July 2008	HK\$5.32	17/7/2008 – 16/9/2014	17/7/2008	1,600,000
			17/7/2009 – 16/9/2014	17/7/2009	1,600,000
			17/7/2010 – 16/9/2014	17/7/2010	1,600,000
					4,800,000
					8,400,000

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



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. SHARE OPTION SCHEME (Continued)

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

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

The Group recognised the total expense of approximately HK\$8,663,000 for the period in relation to share options granted by the Company.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. 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 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.

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 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%.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. CONVERTIBLE BONDS (Continued)

- (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 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:

	30.9.2008 <i>HK\$'000</i> (Unaudited)	31.3.2008 <i>HK\$'000</i> (Audited)
Risk Free Rate of interest	0.71%	1.20%
Credit Spread	5.99%	2.33%
Risk Premium	3.65%	3.88%
Discount Rate	10.35%	7.41%
Conversion Price	HK\$0.15	HK\$0.15
Spot Price	HK\$3.38	HK\$2.80
Volatility	127.83%	106.40%

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. CONVERTIBLE BONDS (Continued)

(ii) Embedded derivatives, comprising: (Continued)

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

	Liability	Embedded	Total
	<i>HK\$'000</i>	<i>derivatives</i>	<i>HK\$'000</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Issued during the year	158,578	25,922	184,500
Issue cost	(1,753)	(286)	(2,039)
Interest charged	3,384	–	3,384
Change in fair value	–	(3,405)	(3,405)
At 31 March 2008 and 1 April 2008	160,209	22,231	182,440
Interest charged	8,266	–	8,266
Change in fair value	–	149	149
At 30 September 2008	168,475	22,380	190,855



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. RELATED PARTY TRANSACTIONS

- (i) Other than the convertible bonds as disclosed in note 15, the Group has the following transactions with related parties during the period:

	Six months ended	
	30.9.2008 HK\$'000 (Unaudited)	30.9.2007 HK\$'000 (Unaudited)
Rental charges paid to a related company (note a)	507	525
Consultancy fees paid to related companies (note b)	–	110

Notes:

- (a) Mr. Ling Tai Yuk, John, a director of a subsidiary, controls and has beneficial interests in this related company.
- (b) During the period ended 30 September 2007, the spouse of a director controls and has beneficial interests in one of the two related companies. For another related company, a director of the Company controlled and had beneficial interest in the Company during the period ended 30 September 2007. There is no such transaction during the period ended 30 September 2008.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. RELATED PARTY TRANSACTIONS (Continued)

- (ii) Compensation of key management personnel

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

	Six months ended	
	30.9.2008 HK\$'000 (Unaudited)	30.9.2007 HK\$'000 (Unaudited)
Short-term benefits (including share option expenses)	4,313	542
Retirement benefits scheme contribution	63	63
	4,376	605

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

17. POST BALANCE SHEET EVENTS

- (a) On 11 October 2008, the Group entered into a loan agreement and provided a loan facility (the "Loan") in an aggregate principal amount of up to HK\$80,000,000 to an independent third party, Park Wealth International Limited ("Park Wealth"). Park Wealth and its subsidiaries are engaged in the water and air purification business. The Loan would be available for drawdown on the date of the loan agreement. The Loan is interest bearing at prime lending rate for Hong Kong dollar quoted from time to time by a bank and is secured by the execution of a guarantee in favour of the Group by certain guarantors and the entire issued shares capital of Park Wealth (the "Sale Shares").
- (b) On 11 October 2008, the Group entered into an agreement ("Agreement"), pursuant to which the Group has conditionally agreed to acquire the Sale Shares. The Consideration of the Agreement will be settled by the Company to allot and issue convertible preference shares with an aggregate amount of HK\$800,000,000.



REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

Deloitte.

德勤

TO THE BOARD OF DIRECTORS OF CHAOYUE GROUP LIMITED

超越集團有限公司

(incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 3 to 21, which comprises the condensed consolidated balance sheet of Chaoyue Group Limited as of 30 September 2008 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standards (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements (“HKSRE”) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.



CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Without qualifying our review conclusion, we draw to your attention that the comparative condensed consolidated income statement for the six-month period ended 30 September 2007 and the comparative condensed consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period ended 30 September 2007 disclosed in the interim financial information have not been reviewed in accordance with standards applicable to review engagements issued by the Hong Kong Institute of Certified Public Accountants.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

12 December 2008



MANAGEMENT DISCUSSION AND ANALYSIS

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 2008 (the “Current Period”), together with the comparative figures for the corresponding period of the previous year.

FINANCIAL RESULTS

For 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 (2007: nil).

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.



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

FINANCIAL POSITION, LIQUIDITY AND CAPITAL STRUCTURE (Continued)

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 warrants can subscribe for new ordinary share of the Company at a subscription price of 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.



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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.

* For identification purpose only



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

FUTURE PLAN AND PROSPECTS (Continued)

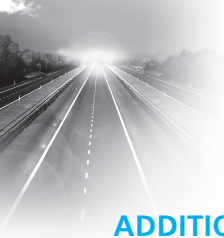
On the other hand, the general public in the PRC has become increasingly affluent and more conscious about safety of food and beverages. It is expected that water purification equipment for office and domestic use will become more popular in the PRC, catching up with the high penetration rate in other 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.

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.



ADDITIONAL INFORMATION

SHARE OPTION SCHEME

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

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

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

An option may be exercised at any time determined by the directors at their discretion. The expiry of the option may be determined by the Board of Directors of the Company which shall not later than the expiry day of the Scheme.

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



ADDITIONAL INFORMATION (Continued)

SHARE OPTION SCHEME (Continued)

The following set out the movements in the share options granted under the Scheme during the period ended 30 September 2008:

Name and category of participant	Exercise period	Number of options granted during the period and as at 30 September 2008
Directors:		
Yuen Leong	17 July 2008 to 16 September 2014	300,000
	17 July 2009 to 16 September 2014	300,000
	17 July 2010 to 16 September 2014	300,000
Chan Wai Dune	17 July 2008 to 16 September 2014	300,000
	17 July 2009 to 16 September 2014	300,000
	17 July 2010 to 16 September 2014	300,000
Chen Ye	17 July 2008 to 16 September 2014	300,000
	17 July 2009 to 16 September 2014	300,000
	17 July 2010 to 16 September 2014	300,000
Lam Man Kit, Domonic	17 July 2008 to 16 September 2014	300,000
	17 July 2009 to 16 September 2014	300,000
	17 July 2010 to 16 September 2014	300,000
		3,600,000
Other employees:		
In aggregate	17 July 2008 to 16 September 2014	1,599,998
	17 July 2009 to 16 September 2014	1,600,001
	17 July 2010 to 16 September 2014	1,600,001
		4,800,000
		8,400,000

These options were granted on 17 July 2008 at an exercise price of HK\$5.32 per ordinary share of the Company. No share options were exercised, lapsed or cancelled after granted during the six months ended 30 September 2008.

ADDITIONAL INFORMATION (Continued)

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30 September 2008, the interests and short positions of each Director and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), which have been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions in which they have taken or deemed to have taken under such provisions of the SFO), or are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules, to be notified to the Company and the Stock Exchange are as follows:

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

Name of Director	Total number of Shares interested	Options to subscribe for Shares of the Company	Number of Shares held under equity derivative	Capacity in which interests are held	Interests as to % to the issued share capital of the Company
Yuen Leong	251,247,388 (Note 1)	-	-	Interest of a controlled corporation	74.55%
	-	900,000 (Note 2)	-	Beneficial owner	0.27%
	-	-	830,000,000 (Note 3)	Interest of a controlled corporation	246.27%
	-	-	207,500,000 (Note 3)	Interest of a controlled corporation	61.57%
Chen Ye	-	900,000 (Note 2)	-	Beneficial owner	0.27%
Chan Wai Dune	-	900,000 (Note 2)	-	Beneficial owner	0.27%
Lam Man Kit Dominic	-	900,000 (Note 2)	-	Beneficial owner	0.27%

ADDITIONAL INFORMATION (Continued)

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES (Continued)

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

Notes:

- (1) These 251,247,388 shares are held by Long Grand Limited which is legally and beneficially owned as to 70% by Mr. Yam Yu and as to 30% by Mr. Yuen Leong. By virtue of his 30% direct interest in Long Grand Limited, Mr. Yuen Leong is deemed or taken to be interested in the 251,247,388 shares held by Long Grand Limited for the purposes of the SFO.
- (2) Pursuant to the share option scheme adopted by a resolution of the Shareholders on 17 September 2004, these share options were granted on 17 July 2008 and are exercisable at HK\$5.32 per Share from 17 July 2008 to 16 September 2014.
- (3) Long Grand Limited also held convertible bonds in the amount of HK\$124,500,000 which are convertible into 830,000,000 new shares at an initial conversion price of HK\$0.15 per share (subject to adjustments) with warrants (one warrant for every four new shares to be issued upon conversion of the convertible bonds) attached conferring right to subscribe up to 207,500,000 new shares at an initial subscription price of HK\$0.15 per share (subject to adjustments). By virtue of his 30% direct interest in Long Grand Limited, Mr. Yuen Leong is deemed or taken to be interested in the respective 830,000,000 shares and 207,500,000 shares to be issued to Long Grand Limited upon conversion of the convertible bonds for the purposes of the SFO.

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

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

Save as disclosed above, as at 30 September 2008, none of the Directors and the chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.



ADDITIONAL INFORMATION (Continued)

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the foregoing and save as disclosed under the heading "Share option scheme" and "Directors' and chief executives' interests in securities" above, at no time during the six months ended 30 September 2008 were there rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were there any such rights exercised by them or was the Company, or any of its holding companies, its fellow subsidiaries or any of its subsidiaries a party to any arrangement to enable the directors, their respective spouse or minor children to acquire such rights in or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 30 September 2008, the following persons, other than the Directors or chief executives of the Company, had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Long position:

Name	Capacity	Number of issued ordinary shares of the Company held	Approximate percentage of total number shareholding
Long Grand Limited (<i>Note 1</i>)	Beneficial owner	251,247,388	74.55%
	Beneficial owner	830,000,000 (<i>Note 2</i>)	246.27%
	Beneficial owner	207,500,000 (<i>Note 2</i>)	61.57%



ADDITIONAL INFORMATION (Continued)

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES (Continued)

Notes:

- (1) Long Grand Limited is legally and beneficially owned as to 70% by Mr. Yam Yu and as to 30% by Mr. Yuen Long.
- (2) Long Grand Limited also held convertible bonds in the amount of HK\$124,500,000 which are convertible into 830,000,000 new shares at an initial conversion price of HK\$0.15 per share (subject to adjustments) with warrants (one warrant for every four new shares to be issued upon conversion of the convertible bonds) attached conferring right to subscribe up to 207,500,000 new shares at an initial subscription price of HK\$0.15 per share (subject to adjustments). By virtue of his 30% direct interest in Long Grand Limited, Mr. Yuen Leong is deemed or taken to be interested in the respective 830,000,000 shares and 207,500,000 shares to be issued to Long Grand Limited upon conversion of the convertible bonds for the purposes of the SFO.

Save as disclosed above, as at 30 September 2008, the Company had not been notified by any person, other than the director or chief executive of the Company, whose interests are disclosed under the heading "Directors' and chief executives' interests in securities" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

MODEL CODE FOR DIRECTORS' DEALING IN SECURITIES

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

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.



ADDITIONAL INFORMATION (Continued)

AUDIT COMMITTEE

During the Current Period, the Audit Committee of the Company comprised of 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 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 Current Period 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.

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

Hong Kong, 12 December 2008