

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

## CHAOYUE GROUP LIMITED 超越集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 147)

### ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED MARCH 31, 2009

The board of directors (the “Board”) of Chaoyue Group Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended March 31, 2009, together with comparative figures for the previous year, as follows:

#### CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED MARCH 31, 2009

	<i>NOTES</i>	<b>2009</b> <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Turnover	4	<b>60,533</b>	178,096
Cost of sales		<b>(53,515)</b>	(153,671)
Gross profit		<b>7,018</b>	24,425
Other income		<b>3,428</b>	2,279
Distribution and selling expenses		<b>(9,002)</b>	(938)
Administrative and other expenses		<b>(44,436)</b>	(11,236)
Finance costs		<b>(12,738)</b>	(5,021)
Changes in fair value of derivative financial instruments		<b>2,566</b>	3,405
Gain on disposal of subsidiaries		<b>–</b>	755
(Loss) profit before taxation	5	<b>(53,164)</b>	13,669
Income tax credit (charge)	6	<b>627</b>	(1,426)
(Loss) profit for the year		<b><u>(52,537)</u></b>	<b><u>12,243</u></b>
(Loss) earnings per share	7		
– basic		<b>(15.59) HK cents</b>	5.74 HK cents
– diluted		<b><u>(15.59) HK cents</u></b>	<b><u>1.95 HK cents</u></b>

# CONSOLIDATED BALANCE SHEET

AT MARCH 31, 2009

	NOTES	2009 HK\$'000	2008 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		115,623	2,374
Intangible assets		91,494	–
Goodwill		369,535	–
		<u>576,652</u>	<u>2,374</u>
<b>CURRENT ASSETS</b>			
Inventories		5,465	25,118
Amounts due from customers for contract work		4,520	–
Trade and other receivables	9	24,649	14,771
Bank balances and cash		147,142	265,532
		<u>181,776</u>	<u>305,421</u>
<b>CURRENT LIABILITIES</b>			
Amounts due to customers for contract work		7,967	–
Trade and other payables	10	49,101	18,984
Amount due to a director of a subsidiary		25,255	–
Taxation payable		2,788	429
Borrowings	11	9,070	36,000
Warranty provision		950	–
Deferred income		28,135	–
Convertible bonds	12	172,802	–
Derivative financial instruments	12	19,665	22,231
		<u>315,733</u>	<u>77,644</u>
NET CURRENT (LIABILITIES) ASSETS		<u>(133,957)</u>	<u>227,777</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>442,695</u>	<u>230,151</u>
<b>NON-CURRENT LIABILITIES</b>			
Deferred income		4,904	–
Deferred taxation		22,873	19
Convertible bonds	12	–	160,209
		<u>27,777</u>	<u>160,228</u>
NET ASSETS		<u>414,918</u>	<u>69,923</u>
<b>CAPITAL AND RESERVES</b>			
Share capital		3,370	3,370
Reserves		411,548	66,553
TOTAL EQUITY		<u>414,918</u>	<u>69,923</u>

NOTES:

**1. GENERAL**

The Company was incorporated in Bermuda as an exempted company with limited liability under the Bermuda Companies Act and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). At the balance sheet date, the parent company and ultimate holding company is Long Grand Limited, a company incorporated in British Virgin Islands. The address of the registered office and principal place of business of the Company is disclosed in the Corporate Information section of the Annual Report.

In prior years, the Company’s functional currency was Hong Kong dollars (“HKD”). Due to the continuing expansion of the Group’s business operations in the People’s Republic of China (the “PRC”), the directors have determined that the functional currency of the Company has been changed from HKD to Renminbi (“RMB”) since the acquisition of Park Wealth International Limited and its subsidiaries (the “Park Wealth Group”) in February 2009. The directors have made an assessment of the impact of the change of the functional currency of the Company and concluded that there was no material effect on the results and financial position of the Group.

The consolidated financial information are presented in HKD as the directors consider that HKD is the appropriate presentation currency as the management of the Company controls and monitors the performance and financial position of the Group by using HKD.

**2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS**

As disclosed in note 13, a total of HK\$120,000,000 principal amount of the convertible bonds issued by the Company are converted into shares of the Company after the balance sheet date and Long Grand Limited, the ultimate holding company and the holder of the remaining convertible bonds of the Company, has agreed to convert the remaining convertible bonds amounting to HK\$64,500,000 before the maturity date, which is December 24, 2009. Accordingly, the financial statements have been prepared on a going concern basis.

**3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)**

In the current year, the Group has applied the following amendments and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), which are effective for the accounting periods beginning on or after April 1, 2008.

Hong Kong Accounting Standard (“HKAS”) 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
Hong Kong (International Financial Reporting Interpretations Committee) (“HK(IFRIC)”) – Interpretations (“Int”) 12	Service Concession Arrangements
HK (IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new and revised standards, amendments and interpretations that have been issued but not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs <sup>1</sup>
HKFRSs (Amendments)	Improvements to HKFRSs 2009 <sup>2</sup>
HKAS 1 (Revised)	Presentation of Financial Statements <sup>3</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>3</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>4</sup>
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation <sup>3</sup>
HKAS 39 (Amendment)	Eligible Hedged items <sup>4</sup>
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate <sup>3</sup>
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations <sup>3</sup>
HKFRS 3 (Revised)	Business Combinations <sup>4</sup>
HKFRS 7 (Amendments)	Improving Disclosures about Financial Instruments <sup>3</sup>
HKFRS 8	Operating Segments <sup>3</sup>
HK(IFRIC) – INT 9 & HKAS 39 (Amendments)	Embedded Derivatives <sup>5</sup>
HK(IFRIC) – INT 13	Customer Loyalty Programmes <sup>6</sup>
HK(IFRIC) – INT 15	Agreements for the Construction of Real Estate <sup>3</sup>
HK(IFRIC) – INT 16	Hedges of a Net Investment in a Foreign Operation <sup>7</sup>
HK(IFRIC) – INT 17	Distributions of Non-cash Assets to Owners <sup>4</sup>
HK(IFRIC) – INT 18	Transfer of Assets from Customers <sup>8</sup>

<sup>1</sup> Effective for annual periods beginning on or after January 1, 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after July 1, 2009

<sup>2</sup> Effective for annual periods beginning on or after January 1, 2009, July 1, 2009 and January 1, 2010, as appropriate

<sup>3</sup> Effective for annual periods beginning on or after January 1, 2009

<sup>4</sup> Effective for annual periods beginning on or after July 1, 2009

<sup>5</sup> Effective for annual periods ending on or after June 30, 2009

<sup>6</sup> Effective for annual periods beginning on or after July 1, 2008

<sup>7</sup> Effective for annual periods beginning on or after October 1, 2008

<sup>8</sup> Effective for transfers on or after July 1, 2009

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the Group's annual reporting period beginning on or after April 1, 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. HKAS 23 (Revised) requires the capitalisation of borrowing costs of the Group that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of assets, on a prospective basis.

The directors of the Company anticipate that the application of the other standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

#### 4. TURNOVER AND SEGMENT INFORMATION

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Sales of goods	45,790	178,096
Contract revenue	8,004	–
Rental income	6,739	–
	<hr/>	<hr/>
Total turnover	<u>60,533</u>	<u>178,096</u>

##### (A) Business segments

During the year ended March 31, 2008, the Group's entire turnover and more than ninety percent of the Group's assets are contributed by its garment business and therefore no business segment analysis is presented for 2008.

During the year ended March 31, 2009, the Group is principally engaged in leasing of direct drinking water purification machines, manufacturing and sales of air purification and water purification equipments, construction and installation of air purification and sewage treatment system in the PRC and manufacturing and trading of garments in the PRC and Hong Kong. Inter-segment sales were charged at market price or, where no market price was available, at cost plus a percentage of profit mark-up. The divisions which are the basis on which the Group reports its primary segment information are as follows:

Principal activities are as follows:

- Direct drinking water – Lease of direct drinking water purification machines
- Purification equipment – Manufacturing and sales of air purification and water purification equipments
- Environmental engineering – Construction and installation of air purification and sewage treatment system
- Garment – Manufacturing and sales of garments

The segment information about these business segments is presented below.

*Revenue and results*

For the year ended March 31, 2009

	<b>Direct drinking water</b> <i>HK\$'000</i>	<b>Purification equipment</b> <i>HK\$'000</i>	<b>Environmental engineering</b> <i>HK\$'000</i>	<b>Garment</b> <i>HK\$'000</i>	<b>Elimination</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>REVENUE</b>						
External sales	6,739	1,989	8,004	43,801	-	60,533
Inter-segment sales	-	21,100	-	-	(21,100)	-
Total	<u>6,739</u>	<u>23,089</u>	<u>8,004</u>	<u>43,801</u>	<u>(21,100)</u>	<u>60,533</u>
<b>RESULT</b>						
Segment result	<u>(2,737)</u>	<u>(1,026)</u>	<u>1,428</u>	<u>(3,122)</u>	<u>(1,919)</u>	(7,376)
Unallocated income						2,867
Unallocated corporate expenses						<u>(48,655)</u>
Loss before income tax						(53,164)
Income tax credit						<u>627</u>
Loss for the year						<u><u>(52,537)</u></u>

*Consolidated balance sheet*

At March 31, 2009

	<b>Direct drinking water</b> <i>HK\$'000</i>	<b>Purification equipment</b> <i>HK\$'000</i>	<b>Environmental engineering</b> <i>HK\$'000</i>	<b>Garment</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>ASSETS</b>					
Segment assets	566,637	30,524	12,747	-	609,908
Unallocated corporate assets					<u>148,520</u>
Total assets					<u><u>758,428</u></u>
<b>LIABILITIES</b>					
Segment liabilities	60,105	11,588	17,681	183	89,557
Unallocated corporate liabilities					<u>253,953</u>
Total liabilities					<u><u>343,510</u></u>

*Other information*

For the year ended March 31, 2009

	Direct drinking water <i>HK\$'000</i>	Purification equipment <i>HK\$'000</i>	Environmental engineering <i>HK\$'000</i>	Garment <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Capital additions	5,208	26,117	-	-	26	31,351
Capital additions arise on acquisition of subsidiaries	179,522	-	-	-	-	179,522
Goodwill	369,535	-	-	-	-	369,535
Depreciation of property, plant and equipment	962	336	-	486	137	1,921
Amortisation of patents	2,506	-	-	-	-	2,506
(Gain) loss on disposal of property, plant and equipment	(19)	-	-	1,460	-	1,441
Allowance on bad and doubtful debts	1,077	265	347	-	-	1,689
	<u>1,077</u>	<u>265</u>	<u>347</u>	<u>-</u>	<u>-</u>	<u>1,689</u>

**(B) Geographical segments**

The Group's operations are located in Hong Kong and the PRC.

The following table provides an analysis of the Group's revenue by geographical market based on the geographical location of customers, irrespective of the origin of the goods.

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
United States of America ("USA")	43,801	178,096
The PRC	16,732	-
	<u>60,533</u>	<u>178,096</u>

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
USA	-	9,553	-	-
Hong Kong	1,378	5,613	26	268
The PRC	608,530	27,097	31,325	760
	<u>609,908</u>	<u>42,263</u>	<u>31,351</u>	<u>1,028</u>

In addition, property, plant and equipment and goodwill arise on acquisition of subsidiaries are related to assets located in the PRC.

## 5. (LOSS) PROFIT FOR THE YEAR

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
(Loss) profit for the year has been arrived at after charging (crediting):		
Directors' emoluments	7,257	955
Other staff costs	14,790	3,896
Other staff retirement benefit scheme contributions	<u>267</u>	<u>129</u>
Total staff costs	<u>22,314</u>	<u>4,980</u>
Auditor's remuneration	950	550
Allowance on bad and doubtful debts	1,689	–
Allowances for inventories	–	1,763
Cost of inventories recognised as expenses	50,422	148,133
Depreciation of property, plant and equipment	1,921	1,268
Amortisation of intangible assets included in administrative expenses	2,506	–
Operating lease rentals in respect of:		
– rented premises	2,011	1,179
– office equipment	18	3
– motor vehicle	–	78
Textile quota expenses	531	3,775
Loss on disposal of property, plant and equipment	1,441	2
Rental income from direct drinking water machines	<u>(6,739)</u>	<u>–</u>

## 6. INCOME TAX (CREDIT) CHARGE

The income tax (credit) charge comprises:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Hong Kong Profits Tax		
– current year	–	1,474
– under(over)provision in prior years	<u>19</u>	<u>(5)</u>
	19	1,469
Deferred taxation	<u>(646)</u>	<u>(43)</u>
	<u><u>(627)</u></u>	<u><u>1,426</u></u>



On June 26, 2008 the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profit tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2008: 17.5%) of the estimated assessable profit for the year. No Hong Kong Profits Tax is payable since there is tax loss incurred in Hong Kong for the year ended March 31, 2009.

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

Shanghai Comfort Environment and Science Company Limited (“Shanghai Comfort”), a subsidiary acquired by the Group during the year ended March 31, 2009, is registered in Shanghai Pudong New Area and is subject to PRC income tax at a concessionary rate of 15% for the period from September 23, 2005 (date of establishment) to December 31, 2007. During 2008, Shanghai Comfort is regarded as advanced technology enterprises by local tax bureau and is entitled to the PRC income tax at concessionary rate of 15% from year 2008 to 2010.

Pursuant to the new PRC Enterprise Income Tax Law promulgated on March 16, 2007, the Enterprise Income Tax for both domestic and foreign-invested enterprises will be unified at 25% effective from January 1, 2008. Except for Shanghai Comfort, the New Law and Implementation Regulations will change the tax rate from 33% to 25% for all other PRC subsidiaries from January 1, 2008 onwards.

The income tax (credit) expenses for the year can be reconciled to the (loss) profit before taxation per the consolidated income statement as follows:

	<b>2009</b> <i>HK\$'000</i>	2008 <i>HK\$'000</i>
(Loss) profit before taxation	<u><b>(53,164)</b></u>	<u>13,669</u>
Tax at the domestic income tax rate of 25% (2008: 17.5%)	<b>(13,291)</b>	2,392
Tax effect of expenses that are not deductible in determining taxable profit	<b>5,970</b>	658
Tax effect of income that is not taxable in determining taxable profit	<b>(330)</b>	(2,065)
Under(over)provision in prior years	<b>19</b>	(5)
Tax effect of unrecognised tax losses	<u><b>7,005</b></u>	<u>446</u>
Tax (credit) charge for the year	<u><b>(627)</b></u>	<u>1,426</u>

The domestic income tax rate represents the tax rate in the jurisdiction where the operations of the Group is substantially based.

## 7. (LOSS) EARNINGS PER SHARE

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

### (Loss) earnings

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
(Loss) earnings for the purpose of basic (loss) earnings per share, being (loss) profit for the year attributable to equity holders of the Company	<u>(52,537)</u>	12,243
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds		3,384
Changes in fair value of derivative financial instruments		<u>(3,405)</u>
Earnings for the purpose of diluted earnings per share		<u>12,222</u>

### Number of shares

Weighted average number of shares for the purpose of basic (loss) earnings per share	<u>337,031,016</u>	213,140,605
Effective of dilutive potential ordinary shares:		
Convertible bonds		333,616,438
Warrants		<u>80,001,844</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share		<u>626,758,887</u>

*Note:* The computation of diluted loss per share for the year ended March 31, 2009 does not take into account for the effect of share options granted and the conversion of convertible bonds and convertible preference shares and the warrants issued by the Company as these would result in a decrease in loss per share.

## 8. DIVIDENDS

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Dividends recognised as distribution during the year:		
Ordinary shares:		
Special dividend – HK29 cents per share for the year ended March 31, 2007	–	48,439
Final dividend paid – HK3 cents per share for the year ended March 31, 2007	–	5,011
	<u>–</u>	<u>53,450</u>

The directors do not recommend the payment of a final dividend for the year ended March 31, 2009.

## 9. TRADE AND OTHER RECEIVABLES

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Trade receivables	16,098	9,553
Other receivables	875	5,218
Prepayments and deposits	7,676	–
	<u>24,649</u>	<u>14,771</u>

The following is an aged analysis of trade receivables of the Group net of allowance for doubtful debts at the balance sheet date:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
0 to 30 days	7,278	9,553
31 to 90 days	2,356	–
91 to 180 days	826	–
181 to 365 days	5,328	–
Over 1 year	310	–
	<u>16,098</u>	<u>9,553</u>

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

Before accepting any new customer, the Group has assessed the potential customer's credit quality and defined credit rating limits of each customers. Limits attributed to customers are reviewed once a year.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date and no impairment is necessary for those balances which are not past due.

At March 31, 2009, included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately HK\$6,405,000 (2008: Nil) which are past due for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and amounts are still considered recoverable based on historical experience. The Group does not hold any collateral over these balances.

#### Ageing of trade receivables which are past due but not impaired

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
31 to 90 days	692	–
91 to 180 days	75	–
181 to 365 days	5,328	–
Over 1 year	310	–
	<u>6,405</u>	<u>–</u>

#### Movement in the allowance for doubtful debts in respect of trade receivables

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Balance at beginning of the year	–	–
Impairment losses recognised	1,689	–
	<u>1,689</u>	<u>–</u>

At March 31, 2009, included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of approximately HK\$1,689,000 (2008: Nil) where the debtors have been in severe financial difficulties.

#### 10. TRADE AND OTHER PAYABLES

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Trade payables	19,594	15,135
Bills payable	1,705	–
Other payables	7,643	1,836
Other tax payables	8,675	–
Receipt in advance from customers	9,518	–
Accruals	1,966	2,013
	<u>49,101</u>	<u>18,984</u>

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

The following is an aged analysis of trade payables and bills payable:

	<b>2009</b>	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	<b>14,906</b>	13,415
31 – 90 days	<b>4,330</b>	1,667
91 – 180 days	<b>1,565</b>	53
181 – 365 days	<b>154</b>	–
Over 1 year	<b>344</b>	–
	<u><b>21,299</b></u>	<u>15,135</u>

## 11. BORROWINGS

As at March 31, 2009, the amount represents unsecured fixed-rate loans with interest at 12% per annum from an independent third party with maturity period not exceeding one year.

As at March 31, 2008, the borrowing from an independent third party was secured by the shares of a subsidiary of the Group and carried interest at 1% per month with effective interest rate of 12% per annum. The balance was fully settled in March 2009.

## 12. CONVERTIBLE BONDS

On December 24, 2007, the Company issued zero coupon convertible bonds at par denominated in HKD in an aggregate principal amount of HK\$124,500,000 to Long Grand Limited (“Subscription Bond”) and HK\$60,000,000 to outsiders (“Placing Bond”) (collectively known as the “Convertible Bonds”). The Convertible Bonds will mature on the second anniversary of the date of issue of the Convertible Bonds, December 24, 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 December 24, 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 December 24, 2009 at their principal amount.

Other principal terms of the Convertible Bonds:

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

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

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

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

	<b>March 31, 2009</b>	March 31, 2008	December 24, 2007
Risk Free Rate of interest	<b>0.31%</b>	1.20%	2.46%
Credit Spread	<b>11.40%</b>	2.33%	1.52%
Risk Premium	<b>3.88%</b>	3.88%	3.88%
Discount Rate	<b>15.05%</b>	7.41%	7.86%
Conversion Price	<b>HK\$0.15</b>	HK\$0.15	HK\$0.15
Spot Price	<b>HK\$1.80</b>	HK\$2.80	HK\$4.55
Volatility	<b>121.58%</b>	106.40%	105.76%

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

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

	<b>Liability</b> <i>HK\$'000</i>	<b>Embedded derivatives</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At April 1, 2007	–	–	–
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)
	<hr/>	<hr/>	<hr/>
At March 31, 2008	160,209	22,231	182,440
Interest charged	12,593	–	12,593
Change in fair value	–	(2,566)	(2,566)
	<hr/>	<hr/>	<hr/>
At March 31, 2009	<u>172,802</u>	<u>19,665</u>	<u>192,467</u>

### 13. EVENTS AFTER THE BALANCE SHEET DATE

In May 2009, 400,000,000 shares and 100,000,000 warrants were issued to the holders of the Placing Bonds upon their conversion of the Placing Bonds in the aggregate principal amount of HK\$60,000,000 at the conversion price of HK\$0.15 per share. In addition, 400,000,000 shares and 100,000,000 warrants were issued to Long Grand upon its conversion of the Subscription Bonds in the principal amount of HK\$60,000,000 in May 2009.

## BUSINESS REVIEW

### OVERALL RESULTS

The Group's turnover for the year ended March 31, 2009 was HK\$60,533,000, representing a decrease of 66.01% compared with HK\$178,096,000 in the previous financial year ended March 31, 2008. The Group recorded a gross profit of HK\$7,018,000 for the year ended March 31, 2009, representing a decrease of 71.27% compared with HK\$24,425,000 reported in 2008. The significant decrease in turnover and gross profit in the current year was mainly due to the reduction in orders from the Group's customers in the United States as a result of the economic downturn and the significant appreciation in Renminbi which had caused an escalation in the costs of sales in the garment business. Besides, the direct drinking water machines and air and water purification equipment and system businesses which was newly acquired in February 2009 did not have positive contribution to the Group because of the slack market just after the Chinese New Year holidays in the People's Republic of China (the "PRC").

The Group's loss for the year amounted to HK\$52,537,000 whereas a net profit of HK\$12,243,000 was reported in 2008. The loss in the current year was mainly due to the increase in distribution and selling expenses and administrative and other expenses after the acquisition of new business. The distribution and selling expenses increased from HK\$938,000 for the year ended March 31, 2008 to HK\$9,002,000 for the year ended March 31, 2009. The administrative overhead of the Group for the year ended March 31, 2009 amounted to HK\$44,436,000 (2008: HK\$11,236,000) which comprised primarily: (1) staff costs of HK\$22,314,000 (2008: HK\$4,980,000) including HK\$13,900,000 (2008: Nil) arising from granting of share options to directors and employees of the Group; (2) operating lease rentals for rented premises of HK\$2,011,000 (2008: HK\$1,179,000); (3) legal and professional fee of HK\$8,545,000 (2008: HK\$1,441,000); (4) amortisation of intangible assets of HK\$2,506,000 (2008: Nil); (5) bad debt provision of HK\$1,689,000 (2008: Nil); and (6) other operating expenses. Besides, the interest expenses accrued on the convertible bonds and other loans of the Company amounted to HK\$12,738,000 (2008: HK\$5,021,000) further increased the loss for the current year.

Earnings per share for the year ended 31 March 2008 was 5.74 HK cents but for the year ended March 31, 2009, the Group recorded a loss of 15.59 HK cents per share.

The Board does not recommend the payment of dividend for the year ended March 31, 2009.

## **REVIEW OF OPERATIONS**

### **Direct drinking water machines**

The Group completed the acquisition of Park Wealth International Limited ("Park Wealth") (the "Acquisition") which holds the entire equity interest in Shanghai Comfort Environment and Science Co., Ltd. ("SH Comfort") in February 2009. With the ozone and filtration technology developed by the in-house research and development team of SH Comfort, the direct drinking water machines not only purifies tap water and filters all harmful substances but also improves the water quality by using an air-water mixing technology which helps to enrich the oxygen level in the water by releasing ozone, preventing fresh water from secondary pollution. The direct drinking water machines are leased to the users who pay lease charges as well as service charges in advance in various terms. The target customers are households, offices, factories, large food and beverage chain stores, gas station, government bodies, schools and hospitals.

For the year ended March 31, 2009, the direct drinking water machines business did not have significant contribution to the Group in both the turnover and the operating result, as only the result for the period from February 12, 2009, the completion date of the acquisition, to March 31, 2009 was consolidated to the Group and such period was the slack market just after the Chinese New Year holidays. The lease and service charges generated from water purification service consolidated to the Group was HK\$6,739,000 and the segment recorded a loss of HK\$2,737,000.



The number of direct drinking water machine installed up to March 31, 2009 was 64,000 units and the sales offices and an agency network have been set up in major cities in the PRC including Beijing, Shanghai, Guangzhou, Shenzhen, Chengdu, Suzhou, Fuzhou, Xiamen, Handan, Xi'an, Liaoning, Tianjin, Shenyang and Dongguan which provide sales and after-sale services for our products.

### **Air and water purification equipment and system**

SH Comfort maintains close relationship and cooperation with famous universities and institutions in China to continuously research into product development and technology. The products of and technology used by SH Comfort have received wide recognition from various organizations and are sold to and installed at food processing factories, auto manufacturing plants and hospitals which require high standard of purification in their facilities. Well-known food enterprises such as Mengniu, Yili, Bright Dairy, Fuji, Chaoda and Strong Group are customers of SH Comfort. SH Comfort also provided air purification facilities to the food processing factories of the food suppliers for 2008 Beijing Olympic Games and the research bases of an aerospace project (嫦娥奔月計畫) in the PRC.

The sales of the equipment and system also did not contribute much to the Group for the current year as the result was consolidated to the Group since February 2009 and such period was the slack market just after the Chinese New Year holidays. In addition, the global financial tsunami also caused slow down in development and expansion plan of certain customers of SH Comfort which in return affected the business of the purification equipment and system business. The revenue resulted from the sales and installation of the purification equipment and system for the current year was HK\$9,993,000 and the segment recorded a profit of HK\$402,000.

### **Garment business**

The Group's turnover for the current year was mainly contributed by the garment business. However, as a result of the global financial tsunami, the number of orders from the customers in the United States decreased significantly. The turnover from sales of garment products for the year ended March 31, 2009 was HK\$43,801,000, representing a significant decrease of 75.41% compared with HK\$178,096,000 in the year ended March 31, 2008. Together with the significant appreciation of Renminbi which had caused an escalation in the costs of sales, the garment business recorded an operating loss of HK\$3,122,000 for the year ended March 31, 2009 (2008: profit of approximately HK\$14,530,000).

## **FINANCIAL REVIEW**

### **Liquidity**

The current ratio of the Group as at March 31, 2009 and 2008 were approximately 0.58 and 3.93 respectively. The Group recorded a net current liabilities of HK\$133,957,000 as at March 31, 2009 whereas net current assets of HK\$227,777,000 was recorded at March 31, 2008. The sharp decrease in current ratio and the net current liabilities recorded at March 31, 2009 were mainly due to the reclassification of the convertible bonds as current liability in the current year as the convertible bonds will mature on December 24, 2009. However, HK\$120,000,000 convertible bonds were converted in May 2009 and the substantial shareholder have already informed the Company of its intention to convert the remaining HK\$64,500,000 convertible bonds before the maturity date. Disregarding the effect of the convertible bonds, the current ratio and net current assets position would have improved significantly.

### **Gearing ratio**

At March 31, 2009, the Group had: (1) outstanding repayable principal balance of the convertible bonds of HK\$184,500,000 (2008: HK\$184,500,000); (2) other loans of HK\$9,070,000 (2008: HK\$36,000,000) which were interest-bearing at 12% per annum; and (3) borrowing from a related party of HK\$25,255,000 (2008: Nil) which was interest free. The gearing ratio, calculated as a ratio of total borrowings to shareholders' fund, was 0.53 as at March 31, 2009 (2008: 3.15). The great improvement in the gearing ratio at March 31, 2009 was mainly due to significant increase in the shareholders' fund as a result of the HK\$383,620,000 Non-voting Convertible Preference Shares for the acquisition of Park Wealth.

### **Financial resources**

The Group currently finances its operations mainly by internally generated funds, other loans, convertible bonds and other convertible equity instruments. 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**

The creation and designation of 200,000,000 shares of HK\$0.01 each in the authorized share capital of the Company as Non-voting Convertible Preference Shares was approved at a special general meeting held on 11 February 2009 in order to prepare for the payment of consideration for the acquisition of Park Wealth. The authorized share capital for ordinary shares was reduced from 50,000,000,000 shares to 49,800,000,000 shares.

The value of the Non-voting Convertible Preference Shares for acquisition of Park Wealth recognised in the financial statement at March 31, 2009 was HK\$383,620,000, which was based on the valuation performed by a professional valuer as at February 12, 2009, the completion date of the Acquisition.

There was no change in the issued ordinary share capital during the year. As at March 31, 2008 and 2009, the Company had 337,031,016 ordinary shares in issue.

Total shareholders' fund of the Group as at March 31, 2009 amounted to approximately HK\$414,918,000 (2008: HK\$69,923,000).

### **Charges on assets**

The share of a subsidiary of the Company had been pledged to secure a borrowing of HK\$36,000,000 at 31 March 2008. Such borrowing was fully repaid in the current year and there are no charge on assets of the Group at March 31, 2009.

### **Contingent liabilities**

As at March 31, 2009, the Group had no contingent liabilities (2008: Nil).

### **Foreign exchange exposure**

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

## **MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES**

On February 12, 2009, the Group successfully completed the acquisition of the 100% issued share capital of Park Wealth, whose principal asset is the holding of a 100% equity interest in SH Comfort and its subsidiaries (the "SH Comfort Group"). SH Comfort Group is principally engaged in the manufacturing and leasing of direct drinking water machines and production and installation of air and water purification equipment and system in the PRC.

The consideration for the Acquisition was satisfied by non-redeemable Non-voting Convertible Preference Shares issued by the Company and is subject to downward adjustment if the profits of Park Wealth for the year ending December 31, 2009 do not meet the minimum guaranteed profit of HK\$100,000,000. The value of the Non-voting Convertible Preference Shares was recognised in the financial statement at HK\$383,620,000. A goodwill on acquisition of HK\$369,535,000 was recognised.

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 the SH Comfort Group.

There was no material disposals of subsidiaries during the year ended March 31, 2009.

## **EMPLOYMENT AND REMUNERATION POLICY**

As at March 31, 2009, the Group had approximately 18 and 1,493 employees in Hong Kong and the PRC respectively.

The employees salaries are reviewed and adjusted annually based on their performance and experience. The Group's employee benefits include performance bonus, medical scheme, mandatory provident fund for Hong Kong employees, social insurance packages for the PRC employees and education subsidy to encourage continuous professional development of staff.

The Group also has a discretionary share option scheme in place which is designed to award employees for their performance. During the year ended March 31, 2009, 8,400,000 share options were granted to the directors and employees of the Group.

## **FUTURE PLAN AND PROSPECTS**

The financial tsunami prompted by the sub-prime mortgage crisis in the US and spread out globally caused a hard time for the Group as the drop in consumption power in the United States affected severely our garment business as United States is our major market. However, this also urged our management to explore potential investment opportunities to diversify our business scope and maximize the income source. The acquisition of Park Wealth during the year is the first important move of the Company.

The Directors consider that the growth potential of water and air purification business in the PRC is immense. Although the global economic downturn had slowed down the expansion plan of certain customers to purchase and install air and water purification equipment and system recently, under the policies and rules such as the 食品安全行動計劃 (Food Safety Action Plan\*) implemented by the Ministry of Health of the PRC in 2003, the 節能減排綜合性工作方案 (Comprehensive Working Scheme for Energy Conservation and Reduction of Pollution\*) promulgated by the State Council in June 2007 and the 中華人民共和國食品安全法 (Food Safety Law\*) passed in February 2009, the management are confident that the demand for additional purification equipment and system to improve the hygiene and sterilization facilities by the food manufacturers and processors will increase once the economy recovers.

On the other hand, the general public in the PRC is becoming increasingly affluent and more conscious about safety of foods and beverages after the exposure of incidents like “Sanlu milk scandal” and the contamination of bottled water in the PRC. It is expected that direct drinking water machines which produce clean and purified water will become more popular in the PRC. The Directors are optimistic about the prospects of this business and more resources will be invested to support the development of this business. Promotion campaign will be launched to increase the popularity of our own registered brand name of “Ozone Comfort” (浩澤 • 康福特) to capture market share and secure a market leader position.

In May 2009, HK\$120 million of convertible bonds in total had been converted to ordinary shares of the Company and the substantial shareholder have already informed the Company of its intention to convert the remaining HK\$64,500,000 convertible bonds before the maturity date. Such moves showed that the substantial shareholder and other bondholders have great confidence in the future development of the Company.

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

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S SHARES**

The Company has not redeemed any of its securities during the year ended March 31, 2009, neither the Company nor any of its subsidiaries has purchased or, sold any of the Company’s securities during the year.

## **REVIEW OF ACCOUNTS**

The Audit Committee has reviewed with directors the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters, including a review of the annual results, related to the preparation of the 2009 annual report.

## **SCOPE OF WORK OF DELOITTE TOUCHE TOHMATSU**

The figures in respect of the Group’s consolidated balance sheet, consolidated income statement and related notes thereto for the year ended March 31, 2009 as set out in the preliminary announcement have been agreed by the Group’s auditor, Deloitte Touche Tohmatsu, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Deloitte Touche Tohmatsu on the preliminary announcement.

## **CORPORATE GOVERNANCE**

The Board of the Company is committed to promote good corporate governance to safeguard the interests of shareholders. The Company set out its corporate governance practices by reference to the Code Provision on Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”). The Company has complied with the CG Code throughout the financial year ended March 31, 2009 except for code provision A.2.1, which required that the roles and responsibilities of chairman and chief executive officer should be separated and should not be performed by the same individual. Details for the deviation with explanation are disclosed below:

Mr. Yuen Leong currently serves the role of chairman of the Board and the chief executive officer of the Company. Since the role of chief executive officer/general manager of the Company’s major operating subsidiaries are performed by other persons 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, eventually the Board will actively consider the issue of nominating appropriate candidates to take up the title of Chairman and Chief Executive Officer.

Mr. Yuen, who took the chair of most Board meetings, will ensure that all Directors are properly briefed on issues arising at the Board meetings and they receive adequate information and materials in a timely manner.

## **CODE OF CONDUCT REGARDING DIRECTORS’ SECURITIES TRANSACTIONS**

The Company has adopted the Model Code of Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. All existing Directors have confirmed with the Company that they have complied with the required standard set out in the Model Code and its code of conduct regarding Directors’ securities transactions during the year.

## **CHANGE OF COMPANY’S NAME**

By a special resolution passed by the shareholders of the Company on May 9, 2008, the name of the Company was changed from “Graneagle Holdings Limited” to “Chaoyue Group Limited 超越集團有限公司”. The Chinese name being “鷹馳實業有限公司” which was adopted for identification purpose, was no longer be adopted.

## **PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT**

This announcement is published on the website of the Company ([www.chaoyuehk.com](http://www.chaoyuehk.com)) and the designated issuer website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)). The 2009 annual report of the Company will be dispatched to the shareholders of the Company and available on the above websites 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 past year.

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

Hong Kong, June 25, 2009

*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.*