



眾彩科技股份有限公司*
CHINA VANGUARD GROUP LTD.

(incorporated in the Cayman Islands with limited liability)

Stock code: 8156

FIRST QUARTERLY REPORT 2006/2007



* for identification purposes only

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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This report, for which the directors of China Vanguard Group Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to China Vanguard Group Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– 1. the information contained in this report is accurate and complete in all material respects and not misleading; 2. there are no other matters the omission of which would make any statement in this report misleading; and 3. all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

The board of directors (the “Board”) of China Vanguard Group Limited (the “Company”) announces that the unaudited consolidated results of the Company and its subsidiaries (together the “Group”) for the three months ended 30 September 2006, together with the comparative unaudited figures for the corresponding period in 2005, are as follows:

		(Unaudited)	
		Three months ended	
		30 September	
		2006	2005
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Continuing operations			
Revenue	2	21,985	5,664
Cost of sales		(19,528)	(4,858)
Gross profit		2,457	806
Other revenue		618	204
Selling and distribution costs		(1,071)	(1,969)
Administrative expenses		(38,724)	(2,171)
Loss from continuing operations		(36,720)	(3,130)
Finance costs		(602)	(620)
Share of results of associated company		–	1,201
Loss before income tax		(37,322)	(2,549)
Income tax expenses	3	–	(390)
Loss for the period from continuing operations		(37,322)	(2,939)
Discontinued operations			
Profit for the period from discontinued operations	7	29,342	7,814
(Loss)/profit for the period		(7,980)	4,875
Attributable to:			
Shareholders of the Company		3,523	5,851
Minority interests		(11,503)	(976)
		(7,980)	4,875
(Loss)/earnings per share	5		
From continuing and discontinued operations:			
Basic		0.56 cent	1.21 cents
Diluted		0.54 cent	1.19 cents
From continuing operations:			
Basic		(4.14) cents	(0.41) cent
Diluted		(3.97) cents	(0.40) cent

*Notes:***1. Basis of preparation and accounting policies**

The unaudited consolidated results have been prepared in accordance with Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprises Market of the Stock Exchange of Hong Kong (the "GEM Listing Rules").

The unaudited consolidated results have been prepared under the historical cost convention.

The accounting policies and methods of computation used in the preparation of these unaudited consolidated results are consistent with those applied in the annual financial statements for the year ended 30 June 2006.

2. Revenue

The principal activities of the Group from continuing operations are (i) the distribution of natural supplementary products, (ii) provision of lottery-related hardware and software systems, (iii) the sales and distribution of edible oil, (iv) operation of a restaurant and (v) mining operation of Xin Jiang Oilfield.

Revenue represents invoiced value of sales, net of returns, discounts allowed or sales taxes where applicable.

3. Income tax expenses

No provision for Hong Kong profits tax has been made as the Group did not have any assessable profits arising in Hong Kong during the period (2005: Nil).

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

4. Dividend

The Board does not recommend the payment of any dividend for the three months ended 30 September 2006 (2005: Nil).

5. (Loss)/earnings per share

From continuing and discontinued operations

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

Earnings

	(Unaudited)	
	Three months ended	
	30 September	
	2006	2005
	HK\$'000	HK\$'000
Earnings for the purposes of basic and diluted earnings per share (profit for the period attributable to equity holders of the Company)	3,523	5,851

Number of shares

	(Unaudited)	
	Three months ended	
	30 September	
	2006	2005
	'000	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	624,053	482,130
Effect of dilutive potential ordinary shares:		
Share options	26,208	7,988
Weighted average number of ordinary shares for the purposes of diluted earnings per share	650,261	490,118

From continuing operations

The calculation of the basic and diluted loss per share from continuing operations attributable to the ordinary equity holders of the Company is based on the following data.

Loss figures are calculated as follows:

	(Unaudited)	
	Three months ended	
	30 September	
	2006	2005
	HK\$'000	HK\$'000
Profit for the period attributable to equity holders of the Company	3,523	5,851
Less:		
Profit for the period from discontinued operations	29,342	7,814
Loss for the purposes of basic and diluted loss per share from continuing operations	(25,819)	(1,963)

The denominators used are the same as those detailed above for both basic and diluted earnings per shares.

From discontinued operations

Basic earnings per share for the discontinued operations is 4.70 cents per share (2005: 1.62 cents per share) and diluted earnings per share for the discontinued operations is 4.51 cents per share (2005: 1.59 cents per share), based on the profit for the period from the discontinued operations of HK\$29,342,000 (2005: HK\$7,814,000) and the denominators detailed above for both basic and diluted earnings per share.

6. Movement of reserves

	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	Share premium	Employee Share-based compensation reserve	Share options reserve	Translation reserve	Special reserve	Retained profit	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 2006	290,004	35,572	39,399	1,935	(1)	24,808	391,717
Exchange differences arising from translation of financial statements of overseas operation	-	-	-	(1,585)	-	-	(1,585)
Recognition of equity-settled share based payments	-	-	30,476	-	-	-	30,476
Net profit for the period	-	-	-	-	-	3,522	3,522
At 30 September 2006	290,004	35,572	69,875	350	(1)	28,330	424,130
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	Share premium	Translation reserve	Special reserve	Retained profit	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 2005		80,825	-	(1)	74,997		155,821
Exchange differences arising from translation of financial statements of overseas operation		-	1,000	-	-		1,000
Net profit for the period		-	-	-	5,851		5,851
At 30 September 2005		80,825	1,000	(1)	80,848		162,672

7. Disposal of interests in subsidiaries

Discontinued operations

At the extraordinary general meeting held on 4 September 2006, an ordinary resolution proposed to approve the Disposals was duly passed by the shareholders.

The profit for the period from the discontinued operations is analysed as follows:

	(Unaudited)	
	Three months ended	
	30 September	
	2006	2005
	HK\$'000	HK\$'000
Manufacturing and distribution of honey mead	380	7,814
Gain on disposal of interests in subsidiaries	28,962	–
	29,342	7,814

The results of the manufacturing and distribution of honey mead for the three months ended 30 September 2006 were as follows:

	(Unaudited)	
	Three months ended	
	30 September	
	2006	2005
	HK\$'000	HK\$'000
Revenue	929	15,812
Cost of sales	(473)	(6,626)
Gross profit	456	9,186
Other revenue	–	26
Selling and distribution costs	(21)	(561)
Administrative expenses	(13)	(218)
Finance costs	(11)	(106)
Profit before income tax	411	8,327
Income tax expenses	(31)	(513)
Profit for the period	380	7,814

8. Subsequent events

- (a) Pursuant to the joint announcement of the Company and its non-wholly owned subsidiary, Aptus Holdings Limited (“Aptus”) dated 2 August 2006, on 25 July 2006, Aptus entered into capital injection agreements with independent third parties, pursuant to which the Group will acquire 48.33% equity interest in Changde Huayou Gas Co. Limited and 33% equity interest in Hunan Huayou Natural Gas Transportation & Distribution Company Limited, at cash consideration of approximately HK\$130 million and HK\$79 million, respectively.

Changde Huayou Gas Co. Limited is managing a city level natural gas project in Changde City in the PRC. Hunan Huayou Natural Gas Transportation & Distribution Company Limited is mainly engaged in the construction of a provincial level main gas pipeline and is to generate revenue by charging city level gas distributors, such as Changde Huayou Gas Co. Limited, a transportation fee based on each cubic meter of natural gas transported along the pipeline.

These transactions have been approved by the Company’s shareholders and Aptus’s shareholders in the extraordinary general meetings held on 7 November 2006 respectively.

- (b) On 7 November 2006, the Company’s non-wholly owned subsidiary, Aptus Holdings Limited (“Aptus”) and Evolution Master Fund Ltd. SPC, Segregated Portfolio M (the “Purchaser”), an independent third party, entered into a bond purchase agreement under which, subject to certain conditions, Aptus agreed to issue and the Purchaser agreed to subscribe and pay for the bonds in the principal amount of HK\$234,000,000 and the bondholder(s) will have the right to convert their bonds into Aptus’s shares. The details of the bond purchase agreement are stated in the joint announcement of the Company and Aptus dated 9 November 2006. Assuming full conversion of the Bonds into Conversion Shares, this will be regarded as a deemed disposal on the part of the Company and constitutes a major transaction under GEM Listing Rules which is subject to the Company’s shareholders’ approval at an extraordinary general meeting. A circular, containing further details of the deemed disposal and a notice of extraordinary general meeting will be dispatched to the Company’s shareholders and holders of the warrants as soon as practicable. Up to 14 November 2006, the circular has not been dispatched.
- (c) Pursuant to the announcement and the circular of the Company dated 29 September 2006 and 6 October 2006 respectively, the Company proposed to issue bonus shares and bonus warrants to the Qualifying Shareholders on the basis of one Bonus Share for every two then existing Shares held on the Record Date and on the basis of one Bonus Warrant for every five then existing Shares held on the Record Date respectively. The Bonus Issue has been approved by the Company’s shareholders in the extraordinary general meeting held on 24 October 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

China Vanguard Group, through various subsidiaries, is contracted to provide software, hardware and other support services to the China lottery industry in various provinces in the PRC. Further, the Group is also involved in the distribution of bee related products and other natural products. Via listed subsidiary, Aptus Holdings Limited, the Group is also engaged in the oil and gas related business in China.

FINANCIAL REVIEW

For the three months ended 30 September 2006, the Group's unaudited consolidated revenue from continuing operations and net profit attributable to shareholders were approximately HK\$22.0 million (2005: HK\$5.7 million) and HK\$3.52 million (2005: HK\$5.85 million) respectively. There was an approximate 288% increase in revenue with an approximate 40% decrease in net profit attributable to shareholders over the corresponding period of last year. Gross profit ratio was approximately 11.2% for the three months period under review (2005: 14.2%).

The increase in revenue was due to the increase of sales of edible oil, which resulted from lower selling prices which were reduced to stimulate the sales. During the period under review, there was approximately HK\$30.4 million in share option expenses charged to the profit and loss and there was approximately HK\$29 million in gains on disposal of certain subsidiaries.

BUSINESS REVIEW

During the period under review, the Group continued to work on the development of its China lottery related operations and China oil and gas related business. Shenzhen Bozone IT Co. Limited (Bozone), our flagship vehicle in the China traditional social welfare lottery space, made its maiden contribution to the Group's revenues and net profits in the final quarter of financial year 2005/2006. Bozone continues to contribute and the Group has been working with the former on expanding its service offerings from just software and technical related services to include hardware, marketing and promotion and assistance in POS management services as well as expanding its operations geographically. In the first quarter of financial year 2006/2007, Bozone operated in Heilongjiang and Shenzhen. However, at the time of this writing, operations have commenced in Zhejiang for the provision of lottery related software services and point of sales ticketing equipment, the revenue of which is calculated on a revenue sharing basis.

With regard Aptus, operationally, the results continue to predominantly reflect the trading of edible oil products as, while drilling at the Group's Xin Jiang Oilfield is progressing, commercial production of crude has yet to commence. With regard the edible operations, revenue was up significantly but edible oil gross profits increased only marginally due to continuing difficult business conditions.

On the oil side, we have been working hard with China Hua You Group Corporation ("Hua You"), a wholly-owned subsidiary of China National Petroleum Corporation (CNPC), to bring onstream production at the Xin Jiang Oilfield. During fourth quarter fiscal 2006, 17 wells were drilled. As at the time of writing this first quarter review, a total of circa 60 wells have now been drilled.

In July 2006, Aptus entered into two agreements to make capital contributions to Changde Huayou Gas Co. Limited ("Changde Joint Venture") (a city level natural gas pipeline project) and Hunan Huayou Natural Gas Transportation & Distribution Company Limited ("Hunan Joint Venture") (a provincial level natural gas pipeline project). The major shareholder in both these ventures is Hua You. In the China Vanguard and Aptus extraordinary general meetings which were both held on 7 November 2006, shareholders of both companies voted in favor of the capital contributions. On 9 November, Aptus announced a convertible bond issue of circa US\$30m to finance the capital contributions.

On the natural products side, in August 2006, to better focus our resources on the China lottery related and China oil and gas related sectors, we announced that we had entered into an agreement to dispose of our 55% interest in Wuhu Bee & Bee Natural Food Company Limited (Wuhu Bee & Bee) and 100% interest in Zhuhai Free Trade Zone Bee & Bee Natural Food Company Limited (Zhuhai Bee & Bee). The former is engaged in the manufacturer and research and development of mead and the later is a distributor of mead. The sale of these two companies was completed in September 2006.

FUTURE OUTLOOK AND PROSPECTS

China Vanguard has diversified from predominantly being a producer and distributor of bee and natural products into two new exciting industries, namely the lottery-related and the oil and gas-related sectors in China.

Total China lottery revenues in the PRC have grown at a compound rate of 65% p.a. over the five years to 2005 to circa RMB70bn. According to the Development Research Centre of the State Council in the PRC, total lottery revenues in China are forecast to reach over RMB100bn in 2007. We believe that the footprint that we have developed comprising of (i) Bozone, one of the few integrated service providers within the traditional welfare lottery related space in China; (ii) Jinan Weita Technology Company Limited (Jinan Weita), a company involved in the research, development, manufacture and sale of lottery related terminals focusing on the traditional welfare lottery space in China; and (iii) Guangzhou Latech Computer Technology Company Limited (Guangzhou Latech), a company engaged in the provision of lottery equipment etc in the sports lottery related segment of the China lottery market; gives us a solid foundation upon which to build and expand into this exciting new business segment.

On the oil and gas related side, production at the Xin Jiang Oilfield is planned to commence in the second half of this calendar year, enabling the Group to capitalize on the current strong demand and pricing environment for crude thereby enhancing its profitability and operational cashflow. Meanwhile, with regard the two Joint Ventures to which Aptus has committed to, the Changde Joint Venture is already commercially operative whilst the Hunan Joint Venture is expected to be operating commercially before the end of this calendar year.

The longer term objective of management is to develop Aptus Holdings Limited into a diversified oil and gas company with the acquisition of the Xin Jiang Oilfield and the pending completion of the natural gas Joint Ventures representing a good start to this process. In addition to developing the assets we have on hand, we intend to explore more business opportunities in the oil and gas related industries in China and also look to continue strengthening our working relationship with Hua You and look for further opportunities in which we can cooperate.

On the natural products side, the disposal of Wuhu Bee & Bee and Zhuhai Bee & Bee leaves just the sale of birds nest and other natural products at the China Vanguard level and the edible oils trading business at the Aptus level. These operations will reduce in importance as our operations in the China lottery-related sector and the oil and gas related industries gain traction.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 September 2006, the interests of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have 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 maintained by the Company referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(1) Long positions in the ordinary shares of the Company

Name of Directors	Company/ Name of associated corporation	Number of Ordinary shares held			Total interest	Percentage of interest
		Corporate interest	Personal interest	Family interest		
Cheung Kwai Lan	Company	241,130,000 (Note 1)	1,380,000	–	242,510,000	38.86%
Chan Tung Mei	Company	241,130,000 (Note 2)	–	1,380,000 (Note 3)	242,510,000	38.86%
Shaw Kyle Arnold Junior (Retired on 24 October 2006)	Company	46,600,000 (Note 4)	–	–	46,600,000	7.47%
Lau Hin Kun	Company	–	450,000	–	450,000	0.07%
Cheung Kwai Lan	Best Frontier Investments Limited	–	909	1 (Note 5)	910	–
Chan Tung Mei	Best Frontier Investments Limited	–	1	909 (Note 6)	910	–

Notes:

1. The 241,130,000 shares are owned by Best Frontier Investments Limited (“Best Frontier”) which is owned as to 99.89% and 0.11% by Madam Cheung Kwai Lan and Mr. Chan Tung Mei respectively. Madam Cheung Kwai Lan is the spouse of Mr. Chan Tung Mei. Accordingly, Madam Cheung Kwai Lan is deemed to be interested in the shares under the SFO.
2. The 241,131,000 shares are owned by Best Frontier Investments Limited (“Best Frontier”) which is owned as to 99.89% and 0.11% by Madam Cheung Kwai Lan and Mr. Chan Tung Mei respectively. Mr. Chan Tung Mei is the spouse of Madam Cheung Kwai Lan. Accordingly, Mr. Chan Tung Mei is deemed to be interested in the shares under the SFO.
3. The 1,380,000 shares are owned by Madam Cheung Kwai Lan who is the spouse of Mr. Chan Tung Mei. Accordingly, Mr. Chan Tung Mei is deemed to be interested in the shares under the SFO.
4. These shares represent Mr. Shaw Kyle Arnold Junior’s interests in:
 - (a) 1,030,000 shares beneficially owned by Shaw, Kwei & Partners (Asia) Ltd. of which Mr. Shaw Kyle Arnold Junior is deemed under the SFO to have an interest by reason of his being the indirect controlling shareholder of Shaw, Kwei & Partners (Asia) Ltd. through his controlled corporation Haven Associates Limited.
 - (b) 24,620,000 shares beneficially owned by China Value Investment Limited which is wholly-owned by Asian Value Investment Fund L.P. (AVIF, L.P.), a limited liability partnership, whose general partner Shaw, Kwei & Partners (Asia) Ltd. (having a 1% interest in AVIF, L.P.) and its indirect controlling shareholder Mr. Shaw Kyle Arnold Junior are both deemed under the SFO to have interest in the same 24,620,000 shares.
 - (c) 20,950,000 shares beneficially owned by Javelin Capital Holdings Limited which is wholly-owned by Asian Value Investment Fund II, L.P. (AVIF II, L.P.), a limited liability partnership, whose general partner SKP Capital Limited (having a 1.19% interest in AVIF II, L.P.) and its indirect controlling shareholder Mr. Shaw Kyle Arnold Junior are both deemed under the SFO to have interest in the same 20,950,000 shares.
5. The 1 share of US\$1 in Best Frontier is owned by Mr. Chan Tung Mei who is spouse of Madam Cheung Kwai Lan. Accordingly, Madam Cheung Kwai Lan is deemed to be interested in the shares under the SFO.
6. The 909 shares of US\$1 each in Best Frontier are owned by Madam Cheung Kwai Lan who is the spouse of Mr. Chan Tung Mei. Accordingly, Mr. Chan Tung Mei is deemed to be interested in the shares under the SFO.

(2) Share option schemes

Pre-IPO Share Option Scheme

All the pre-IPO share options were either exercised or lapsed and therefore, there is no outstanding pre-IPO share options.

Share Option Scheme

The Company has adopted a share option scheme (the “Share Option Scheme”), under which the Board may, at its discretion, invite any persons who satisfy the criteria of the Share Option Scheme, to take up options to subscribe for the shares in the Company.

The Share Option Scheme will remain valid for a period of 10 years commencing from 18 October 2002.

38,800,000 share options, 1,200,000 share options and 40,210,000 share options had been granted on 18 August 2004, 19 October 2004 and 22 March 2006 respectively to total 34 eligible participants (including one executive director and one non-executive director) under the Share Option Scheme and 200,000 share options out of the above-mentioned 38,800,000 share options had been exercised.

Name of director	Date of grant	Exercise price HK\$	Outstanding at 1 July 2006	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period	Outstanding at 30 September 2006	Exercise period of share options
Lau Hin Kun	18/8/2004	0.64	1,600,000	-	-	-	-	1,600,000	19/8/2004-17/10/2012
Shaw Kyle Arnold Junior (Retired on 24 October 2006)	19/10/2004	0.65	1,200,000	-	-	-	-	1,200,000	20/10/2004-17/10/2012
Total			2,800,000	-	-	-	-	2,800,000	

The closing prices of the Company’s shares on 18 August 2004, 19 October 2004 and 22 March 2006, the dates of grant of the share options, were HK\$0.64, HK\$0.65 and HK\$2.90, respectively.

(3) Long positions in the shares of associated corporation – Aptus Holdings Limited

Name of Director	Number of ordinary shares held			Total interest	Approximate percentage of shareholding
	Corporate interest	Personal interest	Family interest		
Cheung Kwai Lan (<i>Note</i>)	915,571,428	–	–	915,571,428	54.88%

Note: Madam Cheung Kwai Lan and Mr. Chan Tung Mei have equity interests of 99.89% and 0.11% respectively of the issued share capital of Best Frontier Investments Limited (“Best Frontier”). Madam Cheung Kwai Lan is the spouse of Mr. Chan Tung Mei. Accordingly, Madam Cheung Kwai Lan is deemed to be 100% interested in the shares of Best Frontier under the SFO. As at 30 September 2006, Best Frontier is interested in approximately 38.64% of the issued share capital of China Vanguard Group Limited which in turn holds 100% shareholding of China Success Enterprises Limited. China Success Enterprises Limited then holds 100% shareholding of Precise Result Profits Limited which directly holds 915,571,428 shares of Aptus Holdings Limited. Besides, Madam Cheung Kwai Lan holds 1,380,000 shares of China Vanguard Group Limited as at 30 September 2006.

Save as disclosed above, as at 30 September 2006, none of the Directors or chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or 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 Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS’ INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 30 September 2006, so far as is known to the Directors and the chief executives of the Company, the interests and short positions of the persons or corporations in the shares or underlying shares of the Company which have been disclosed to the Company

under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Name of Shareholders	Capacity	Number of ordinary shares held		Percentage of shareholding
		Long position	Short position	
Best Frontier Investments Limited	Directly beneficially owned	241,130,000 <i>(Note 1)</i>	–	38.64%
Oppenheimer Funds, Inc.	Investment manager	110,000,000	–	17.63%
Haven Associates Limited	Controlled corporation	46,600,000 <i>(Note 2)</i>	–	7.47%

Notes:

1. The 241,130,000 shares are owned by Best Frontier Investments Limited which is owned as to 99.89% and 0.11% by Madam Cheung Kwai Lan and Mr. Chan Tung Mei respectively.
2. The 46,600,000 shares represent:
 - (a) 1,030,000 shares beneficially owned by Shaw, Kwei & Partners (Asia) Ltd.
 - (b) 24,620,000 shares beneficially owned by China Value Investment Limited which is wholly-owned by Asian Value Investment Fund L.P. (AVIF, L.P.), a limited liability partnership, whose general partner Shaw, Kwei & Partners (Asia) Ltd. (having a 1% interest in AVIF, L.P.) and its indirect controlling shareholder Mr. Shaw Kyle Arnold Junior are both deemed under the SFO to have interest in the same 24,620,000 shares.
 - (c) 20,950,000 shares beneficially owned by Javelin Capital Holdings Limited which is wholly-owned by Asian Value Investment Fund II, L.P. (AVIF II, L.P.), a limited liability partnership, whose general partner SKP Capital Limited (having a 1.19% interest in AVIF II, L.P.) is deemed under the SFO to have interest in the same 20,950,000 shares.
 - (d) Haven Associates Limited is the controlling shareholder of Shaw, Kwei & Partners (Asia) Ltd. and SKP Capital Limited.

Save as disclosed above, as at 30 September 2006, so far as is known to the Directors and the chief executives of the Company, no other person has interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept by the Company under section 336 of the SFO, or, were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

COMPETING INTERESTS

None of the Directors or the management shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules) had any business that competed or might compete with the business of the Group.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the code of conduct for securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the “Code”). Having made specific enquiry of all Directors, the Company was not aware of any non-compliance with the required standard as set out in the Code.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based upon the guidelines published by the Hong Kong Institute of Certified Public Accountants. The primary duties of the audit committee are to review the Company’s annual report and accounts, half-year reports and quarterly reports and to provide advice and comments thereon to the Board. The audit committee is also responsible for reviewing and supervising the Company’s financial reporting and internal control procedures. The audit committee consisted of three independent non-executive Directors, namely Mr. Tian He Nian, Mr. Zhao Zhi Ming and Mr. To Yan Ming, Edmond. Mr. To Yan Ming, Edmond is the chairman of the audit committee. The Group’s unaudited consolidated results for the three months ended 30 September 2006 have been reviewed by the audit committee which was of the opinion that the preparation of such results complied with applicable accounting standards and requirements and that adequate disclosures had been made.

PURCHASES, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

During the three months ended 30 September 2006, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

By order of the Board

CHAN Ting

Director

As at the date of this report, the executive Directors are Madam Cheung Kwai Lan, Mr. Chan Tung Mei, Mr. Lau Hin Kun and Mr. Chan Ting; and the independent non-executive Directors are Mr. Tian He Nian, Mr. Zhao Zhi Ming and Mr. To Yan Ming, Edmond.

Hong Kong, 14 November 2006