



**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



**Interim Report 2008/2009**

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

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## RESULTS

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 and six months ended 31 December 2008, together with the comparative unaudited figures for the corresponding period in 2007, are as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and six months ended 31 December 2008

|   | Notes | (Unaudited)<br>Three months ended<br>31 December |                  | (Unaudited)<br>Six months ended<br>31 December |                  |
|---|-------|--|------------------|--|------------------|
|   |       | 2008<br>HK\$'000                                 | 2007<br>HK\$'000 | 2008<br>HK\$'000                               | 2007<br>HK\$'000 |
| Revenue   | 2     | 42,281   | 34,053           | 94,563   | 75,136           |
| Cost of sales   |       | (22,540)   | (22,093)         | (62,070)                                       | (50,629)         |
| Gross profit  |       | 19,741   | 11,960           | 32,493   | 24,507           |
| Other revenue   |       | 2,386  | 1,377            | 4,116  | 1,828            |
| Selling and distribution costs  |       | (6,695)  | (4,587)          | (12,436)                                       | (7,758)          |
| Administrative expenses   |       | (18,117)   | (10,238)         | (37,231)                                       | (29,807)         |
| Gain on disposal of<br>a subsidiary held by a jointly<br>controlled entity        |       | -  | -                | 1,163  | -                |
| Loss on disposal of<br>an associate   |       | (7)  | -                | (7)  | -                |
| Loss on deemed disposal of<br>a subsidiary held by a jointly<br>controlled entity |       | -  | -                | -  | (7)              |
| Share of results of an associate  |       | 124  | 6                | 124  | 17               |
| Loss from operations  | 4     | (2,568)  | (1,482)          | (11,778)                                       | (11,220)         |
| Finance costs   |       | (16,438)   | (9,864)          | (32,813)                                       | (17,713)         |
| Loss before income tax  |       | (19,006)   | (11,346)         | (44,591)                                       | (28,933)         |
| Income tax expenses   | 5     | (1,195)  | (182)            | (1,329)  | (998)            |
| Loss for the period   |       | (20,201)   | (11,528)         | (45,920)                                       | (29,931)         |
| Attributable to:  |       |  |                  |  |                  |
| Equity holders of the Company   |       | (21,434)   | (11,784)         | (47,803)                                       | (31,233)         |
| Minority interests  |       | 1,233  | 256              | 1,883  | 1,302            |
|   |       | (20,201)   | (11,528)         | (45,920)                                       | (29,931)         |
| Loss per share  | 7     |  |                  |  |                  |
| Basic   |       | (0.66) cents                                     | (1.26) cents     | (1.48) cents                                   | (3.33) cents     |

**CONDENSED CONSOLIDATED BALANCE SHEET***As at 31 December 2008*

|  | (Unaudited)<br>31 December<br>2008 | (Audited)<br>30 June<br>2008 |
|--|------------------------------------|------------------------------|
| <i>Notes</i>   | <b>HK\$'000</b>                    | <b>HK\$'000</b>              |
| <b>NON-CURRENT ASSETS</b>                            |                                    |                              |
| Property, plant and equipment                        | <b>299,311</b>                     | 276,868                      |
| Goodwill   | <b>2,297,186</b>                   | 2,297,186                    |
| Other intangible assets                              | <b>8,097</b>                       | 5,358                        |
| Interest in associates                               | –                                  | 2,127                        |
| Available-for-sale financial asset                   | <b>63,780</b>                      | 63,780                       |
| Prepaid lease payments                               | <b>15,599</b>                      | 15,502                       |
| Construction in progress                             | <b>618</b>                         | 6,912                        |
|  | <b>2,684,591</b>                   | 2,667,733                    |
| <b>CURRENT ASSETS</b>                                |                                    |                              |
| Inventories  | <b>7,913</b>                       | 6,912                        |
| Trade and other receivables and prepayments          | <b>57,360</b>                      | 114,487                      |
| Prepaid lease payments – current portion             | <b>425</b>                         | 452                          |
| Tax recoverable                                      | –                                  | 680                          |
| Pledged bank deposits                                | <b>5,083</b>                       | 5,033                        |
| Bank balances and cash                               | <b>284,962</b>                     | 292,600                      |
|  | <b>355,743</b>                     | 420,164                      |
| <b>CURRENT LIABILITIES</b>                           |                                    |                              |
| Trade and other payables                             | <b>79,149</b>                      | 66,093                       |
| Tax liabilities                                      | <b>3,100</b>                       | 539                          |
| Derivative financial instruments                     | <b>100,861</b>                     | 100,861                      |
| Bank and other borrowings – due within one year      | <b>48,564</b>                      | 66,745                       |
|  | <b>231,674</b>                     | 234,238                      |
| <b>NET CURRENT ASSETS</b>                            | <b>124,069</b>                     | 185,926                      |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>         | <b>2,808,660</b>                   | 2,853,659                    |
| <b>NON-CURRENT LIABILITIES</b>                       |                                    |                              |
| Bank and other borrowings                            | <b>94,435</b>                      | 114,251                      |
| Convertible bonds                                    | <b>493,597</b>                     | 471,097                      |
|  | <b>588,032</b>                     | 585,348                      |
| <b>NET ASSETS</b>                                    | <b>2,220,628</b>                   | 2,268,311                    |
| <b>CAPITAL AND RESERVES</b>                          |                                    |                              |
| Share capital  | <b>32,142</b>                      | 32,353                       |
| Reserves   | <b>2,156,525</b>                   | 2,215,272                    |
| Equity attributable to equity holders of the Company | <b>2,188,667</b>                   | 2,247,625                    |
| Minority interests                                   | <b>31,961</b>                      | 20,686                       |
| <b>TOTAL EQUITY</b>                                  | <b>2,220,628</b>                   | 2,268,311                    |

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 December 2008

|   | (Unaudited)      |                 |
|---|------------------|-----------------|
|   | Six months ended |                 |
|   | 31 December      |                 |
|   | 2008             | 2007            |
|   | <i>HK\$'000</i>  | <i>HK\$'000</i> |
| Net cash inflow/(outflow) from operating activities | <b>72,210</b>    | (19,785)        |
| Net cash outflow from investing activities          | <b>(32,100)</b>  | (29,838)        |
| Net cash (outflow)/inflow from financing activities | <b>(47,437)</b>  | 6,419           |
| Net decrease in cash and cash equivalents           | <b>(7,327)</b>   | (43,204)        |
| Cash and cash equivalents at beginning of period    | <b>292,600</b>   | 204,722         |
| Effect of foreign exchange rates changes            | <b>(311)</b>     | 10,417          |
| Cash and cash equivalents at end of period          | <b>284,962</b>   | 171,935         |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2008

|  | (Unaudited)   | (Unaudited)   | (Unaudited)                           | (Unaudited)                | (Unaudited)                               | (Unaudited)          | (Unaudited)         | (Unaudited)     | (Unaudited)        | (Unaudited)        | (Unaudited) |
|--|---------------|---------------|---------------------------------------|----------------------------|---|----------------------|---------------------|-----------------|--------------------|--------------------|-------------|
|  | Share capital | Share premium | Equity convertible bonds component of | Capital redemption reserve | Employee share-based compensation reserve | Share option reserve | Translation reserve | Special reserve | Accumulated losses | Minority interests | Total       |
|  | HK\$'000      | HK\$'000      | HK\$'000                              | HK\$'000                   | HK\$'000                                  | HK\$'000             | HK\$'000            | HK\$'000        | HK\$'000           | HK\$'000           | HK\$'000    |
| At 1 July 2008   | 32,353        | 2,166,728     | 10,712                                | -                          | 35,572                                    | 11,282               | 35,095              | (1)             | (44,116)           | 20,686             | 2,268,311   |
| Exchange differences arising from translation of financial statements of overseas operations | -             | -             | -                                     | -                          | -   | -                    | (375)               | -               | -                  | (38)               | (413)       |
| Repurchase of shares   | (211)         | (10,591)      | -                                     | 211                        | -   | -                    | -                   | -               | (211)              | -                  | (10,802)    |
| Exercise of warrants   | -             | 22            | -                                     | -                          | -   | -                    | -                   | -               | -                  | -                  | 22          |
| Capital contribution from minority shareholders  | -             | -             | -                                     | -                          | -   | -                    | -                   | -               | -                  | 9,430              | 9,430       |
| Net (loss)/profit for the period   | -             | -             | -                                     | -                          | -   | -                    | -                   | -               | (47,803)           | 1,883              | (45,920)    |
| At 31 December 2008  | 32,142        | 2,156,159     | 10,712                                | 211                        | 35,572                                    | 11,282               | 34,720              | (1)             | (92,130)           | 31,961             | 2,220,628   |
| At 1 July 2007   | 9,361         | 286,884       | 10,712                                | -                          | 35,572                                    | 122,746              | 8,136               | (1)             | (47,713)           | 12,508             | 438,205     |
| Exchange differences arising from translation of financial statements of overseas operations | -             | -             | -                                     | -                          | -   | -                    | 9,652               | -               | -                  | 556                | 10,208      |
| Share issued on exercise of options  | 83            | 3,615         | -                                     | -                          | -   | -                    | -                   | -               | -                  | -                  | 3,698       |
| Deemed disposal of a subsidiary of a jointly controlled entity                               | -             | -             | -                                     | -                          | -   | -                    | -                   | -               | -                  | (749)              | (749)       |
| Recognition of equity-settled share based payments   | -             | -             | -                                     | -                          | -   | 8,537                | -                   | -               | -                  | -                  | 8,537       |
| Net (loss)/profit for the period   | -             | -             | -                                     | -                          | -   | -                    | -                   | -               | (31,233)           | 1,302              | (29,931)    |
| At 31 December 2007  | 9,444         | 290,499       | 10,712                                | -                          | 35,572                                    | 131,283              | 17,788              | (1)             | (78,946)           | 13,617             | 429,968     |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 31 December 2008*

### 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited consolidated results have been prepared in accordance with accounting principles generally accepted in Hong Kong which include 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 Limited.

The unaudited consolidated results have been prepared under the historical cost convention, except for certain financial instruments which are measured at fair values.

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 2008.

### 2. REVENUE

The principal activities of the Group are (i) distribution of natural supplementary products, (ii) provision of lottery-related hardware and software systems, (iii) distribution of edible oil, (iv) holding profit sharing right of oil field, (v) sales of gas and gas appliances, provision of gas transportation services and installation services for gas connection, and (vi) provision of the nationwide karaoke content management service system ("Karaoke CMS").

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

### 3. SEGMENT INFORMATION

#### a. Business segments

| (Unaudited)   |  |  |  |  |                                |                                   |                           |                          |
|---|--|--|--|--|--------------------------------|-----------------------------------|---------------------------|--------------------------|
| Six months ended 31 December 2008                                       |  |  |  |  |                                |                                   |                           |                          |
|   | Distribution<br>of natural<br>supplementary<br>products<br><i>HK\$'000</i> | Provision<br>of lottery-<br>related<br>hardware<br>and<br>software<br>systems<br><i>HK\$'000</i> | Distribution<br>of edible oil<br><i>HK\$'000</i> | Profit sharing<br>right on<br>oil field<br><i>HK\$'000</i> | Gas related<br><i>HK\$'000</i> | Karaoke<br>CMS<br><i>HK\$'000</i> | Others<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
| Revenue   | 408  | 19,517   | 18,292   | -  | 46,586                         | 9,533                             | 227                       | 94,563                   |
| Segment results   | (1,184)  | 6,362  | 21   | (225)  | 353                            | (5,178)                           | (338)                     | (189)                    |
| Unallocated income  |  |  |  |  |                                |                                   |                           | 3,066                    |
| Unallocated expenses  |  |  |  |  |                                |                                   |                           | (15,935)                 |
| Finance costs   |  |  |  |  |                                |                                   |                           | (32,813)                 |
| Gain on disposal of a subsidiary held<br>by a jointly controlled entity |  |  |  |  |                                |                                   |                           | 1,163                    |
| Loss on disposal of an associate  |  |  |  |  |                                |                                   |                           | (7)                      |
| Share of results of an associate  |  |  |  |  |                                |                                   |                           | 124                      |
| Loss before income tax  |  |  |  |  |                                |                                   |                           | (44,591)                 |
| Income tax expenses   |  |  |  |  |                                |                                   |                           | (1,329)                  |
| Loss for the period   |  |  |  |  |                                |                                   |                           | (45,920)                 |

| (Unaudited)   |  |   |  |   |                                   |                           |                          |
|---|--|---|--|---|-----------------------------------|---------------------------|--------------------------|
| Six months ended 31 December 2007   |  |   |  |   |                                   |                           |                          |
|   | Distribution<br>of natural<br>supplementary<br>products<br><i>HK\$'000</i> | Provision of<br>lottery-related<br>hardware and<br>software<br>systems<br><i>HK\$'000</i> | Distribution<br>of edible oil<br><i>HK\$'000</i> | Profit<br>sharing<br>right on<br>oil field<br><i>HK\$'000</i> | Gas<br>related<br><i>HK\$'000</i> | Others<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
| Revenue   | 1,266  | 17,647  | 24,678   | -   | 31,522                            | 23                        | 75,136                   |
| Segment results   | (2,697)  | 4,342   | (1)  | (513)   | 1,843                             | (163)                     | 2,811                    |
| Unallocated income  |  |   |  |   |                                   |                           | 936                      |
| Unallocated expenses  |  |   |  |   |                                   |                           | (14,977)                 |
| Finance costs   |  |   |  |   |                                   |                           | (17,713)                 |
| Loss on deemed disposal of<br>a subsidiary held by<br>a jointly controlled entity |  |   |  |   |                                   |                           | (7)                      |
| Share of results of<br>an associate   |  |   |  |   |                                   |                           | 17                       |
| Loss before income tax  |  |   |  |   |                                   |                           | (28,933)                 |
| Income tax expenses   |  |   |  |   |                                   |                           | (998)                    |
| Loss for the period   |  |   |  |   |                                   |                           | (29,931)                 |



**b. Geographical market segments**

A summary of the geographical segments is set out as follows:

|   |                         |                         | (Unaudited)<br>Six months ended 31 December |                         | Consolidated            |                         |
|---|-------------------------|-------------------------|---|-------------------------|-------------------------|-------------------------|
|   | 2008<br><i>HK\$'000</i> | 2007<br><i>HK\$'000</i> | Elimination                                 |                         | 2008<br><i>HK\$'000</i> | 2007<br><i>HK\$'000</i> |
|   |                         |                         | 2008<br><i>HK\$'000</i>                     | 2007<br><i>HK\$'000</i> |                         |                         |
| Geographical market   |                         |                         |   |                         |                         |                         |
| Segment revenue:  |                         |                         |   |                         |                         |                         |
| PRC   | <b>75,863</b>           | 49,192                  | -   | -                       | <b>75,863</b>           | 49,192                  |
| Hong Kong   | <b>408</b>              | 1,266                   | -   | -                       | <b>408</b>              | 1,266                   |
| South East Asia   | <b>18,292</b>           | 24,678                  | -   | -                       | <b>18,292</b>           | 24,678                  |
| <b>Total</b>  | <b>94,563</b>           | 75,136                  | -   | -                       | <b>94,563</b>           | 75,136                  |
| Segment results:  |                         |                         |   |                         |                         |                         |
| PRC   |                         |                         |   |                         | <b>974</b>              | 5,509                   |
| Hong Kong   |                         |                         |   |                         | <b>(1,184)</b>          | (2,697)                 |
| South East Asia   |                         |                         |   |                         | <b>21</b>               | (1)                     |
| Unallocated income  |                         |                         |   |                         | <b>3,066</b>            | 936                     |
| Unallocated expenses  |                         |                         |   |                         | <b>(15,935)</b>         | (14,977)                |
| Finance costs   |                         |                         |   |                         | <b>(32,813)</b>         | (17,713)                |
| Gain on disposal of<br>a subsidiary held by<br>a jointly controlled entity        |                         |                         |   |                         | <b>1,163</b>            | -                       |
| Loss on disposal<br>of an associate   |                         |                         |   |                         | <b>(7)</b>              | -                       |
| Loss on deemed disposal<br>of a subsidiary held by<br>a jointly controlled entity |                         |                         |   |                         | -                       | (7)                     |
| Share of results<br>of an associate   |                         |                         |   |                         | <b>124</b>              | 17                      |
| Loss before income tax  |                         |                         |   |                         | <b>(44,591)</b>         | (28,933)                |
| Income tax expenses   |                         |                         |   |                         | <b>(1,329)</b>          | (998)                   |
| Loss for the period   |                         |                         |   |                         | <b>(45,920)</b>         | (29,931)                |

#### 4. LOSS FROM OPERATIONS

Loss from operations has been arrived at after charging/(crediting):

|   | <b>(Unaudited)</b>      |          |
|---|-------------------------|----------|
|   | <b>Six months ended</b> |          |
|   | <b>31 December</b>      |          |
|   | <b>2008</b>             | 2007     |
|   | <b>HK\$'000</b>         | HK\$'000 |
| Amortisation of technical know-how            | <b>732</b>              | 1,409    |
| Depreciation of property, plant and equipment | <b>14,979</b>           | 14,004   |
| Interest on borrowings                        | <b>4,463</b>            | 3,513    |
| Interest on convertible bonds                 | <b>28,350</b>           | 14,200   |
| Interest income                               | <b>(2,760)</b>          | (994)    |

#### 5. 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 for the three months and six months ended 31 December 2008 (three months and six months ended 31 December 2007: Nil).

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

#### 6. DIVIDEND

The Board does not recommend the payment of any dividend for the three months and six months ended 31 December 2008 (three months and six months ended 31 December 2007: Nil).

## 7. LOSS PER SHARE

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

### Loss

|  | <b>(Unaudited)</b>        |          | <b>(Unaudited)</b>      |          |
|--|---------------------------|----------|-------------------------|----------|
|  | <b>Three months ended</b> |          | <b>Six months ended</b> |          |
|  | <b>31 December</b>        |          | <b>31 December</b>      |          |
|  | <b>2008</b>               | 2007     | <b>2008</b>             | 2007     |
|  | <b>HK\$'000</b>           | HK\$'000 | <b>HK\$'000</b>         | HK\$'000 |
| Loss for the purposes of<br>basic loss per share | <b>(21,434)</b>           | (11,784) | <b>(47,803)</b>         | (31,233) |

### Number of shares

|   | <b>(Unaudited)</b>        |         | <b>(Unaudited)</b>      |         |
|---|---------------------------|---------|-------------------------|---------|
|   | <b>Three months ended</b> |         | <b>Six months ended</b> |         |
|   | <b>31 December</b>        |         | <b>31 December</b>      |         |
|   | <b>2008</b>               | 2007    | <b>2008</b>             | 2007    |
|   | <b>'000</b>               | '000    | <b>'000</b>             | '000    |
| Weighted average<br>number of ordinary<br>shares for the<br>purposes of basic loss<br>per share | <b>3,238,464</b>          | 937,596 | <b>3,228,504</b>        | 938,591 |

No diluted loss per share has been presented in both periods as the outstanding share options, warrants and convertible bonds of the Company are anti-dilutive since their exercise or concession would result in a decrease in loss per share.

**8. TRADE RECEIVABLES**

Payment terms with customer are mainly on credit together with deposits. Invoices are normally payable within 180 days of issuance.

An aged analysis of the Group's trade receivables at the balance sheet dates, is as follows:

|                | <b>(Unaudited)</b><br><b>31 December</b><br><b>2008</b><br><b>HK\$'000</b> | (Audited)<br>30 June<br>2008<br>HK\$'000 |
|----------------|--|--|
| 0 to 30 days   | <b>6,933</b>   | 6,873                                    |
| 31 to 60 days  | <b>102</b>   | 4,077                                    |
| 61 to 365 days | <b>427</b>   | 3,708                                    |
| Over 1 year    | <b>446</b>   | 1,389                                    |
|                | <b>7,908</b>   | 16,047                                   |

**9. TRADE PAYABLES**

An aged analysis of the Group's trade payables at the balance sheet dates, is as follows:

|                 | <b>(Unaudited)</b><br><b>31 December</b><br><b>2008</b><br><b>HK\$'000</b> | (Audited)<br>30 June<br>2008<br>HK\$'000 |
|-----------------|--|--|
| 0 to 30 days    | <b>15,587</b>  | 27                                       |
| 31 to 120 days  | <b>7,580</b>   | -  |
| 121 to 180 days | <b>3,750</b>   | 169                                      |
| 181 to 365 days | <b>143</b>   | 2,885                                    |
| Over 1 year     | <b>978</b>   | 3,742                                    |
|                 | <b>28,038</b>  | 6,823                                    |

## 10. CONVERTIBLE BONDS

- (a) On 22 November 2006, the Company's non wholly-owned subsidiary, Aptus Holdings Limited ("Aptus"), issued convertible bonds due on 21 November 2011 with a principal amount of HK\$234,000,000, which is interest-bearing at 5% per annum from and including 21 May 2008. The convertible bonds were issued for the purpose of the acquisition of a 48.33% equity interest in Changde Huayou Gas Co., Ltd., 33% equity interest in the Hunan Huayou Natural Gas Transportation & Distribution Company Limited and general working capital purposes.

On 23 October 2008, Aptus, The Bank of New York Mellon (formerly known as The Bank of New York) (the "Trustee") and BNY Corporate Trustee Services Limited (the "Security Trustee") entered into the amendment deed pursuant to which the parties agreed to amend the terms and conditions of the convertible bonds set out in Schedule 1 to the trust deed. The principal amendment of the amendment deed is to replace the first put option date of 21 November 2008 with 21 February 2009.

On 30 December 2008, Aptus, the Trustee and the Security Trustee entered into the second amendment deed pursuant to which the parties agreed to further amend the terms of the trust deed and the conditions of the convertible bonds including but not limited to, permitting Aptus to dispose of the charged property for the purpose of redeeming the outstanding convertible bonds provided that sufficient funds to redeem the convertible bonds and pay related fees and expenses are held in escrow; limiting the bondholders' rights to convert the convertible bonds during the period ending 21 November 2009; revising the conversion price to HK\$0.5756 and the minimum reset reference price to HK\$0.4029. An extraordinary general meeting is to be held on 16 February 2009, seeking approval of the Aptus' shareholders of the specific mandate to authorise the Aptus' Directors to issue and allot up to a maximum of 580,789,278 new Aptus' shares upon conversion of the amended convertible bonds.

For details of the two amendments of the convertible bonds, please refer to the joint announcements of the Company and Aptus dated 23 October 2008 and 7 January 2009 and Aptus' circular dated 21 January 2009.

Unless previously redeemed, converted or purchased and cancelled, the convertible bonds will be redeemed at 150.15% of their principal amount on 21 November 2011.

The fair value of the liability component of the convertible bonds is estimated by computing the present value of all future cash flows discounted using prevailing market rate of interest for similar instrument with a similar credit rating and with consideration of the convertible bonds. The residual amount, representing the value of the equity component, is credited to Aptus' reserve account.

The convertible bonds have been split between the liability and equity components as follows:

|   | <b>(Unaudited)</b><br><b>31 December</b><br><b>2008</b><br><b>HK\$'000</b> | (Audited)<br>30 June<br>2008<br><i>HK\$'000</i> |
|---|--|---|
| Nominal value of convertible bonds issued                       | <b>234,000</b>   | 234,000   |
| Equity component  | <b>(10,712)</b>  | (10,712)  |
| Liability component at the issuance date                        | <b>223,288</b>   | 223,288   |
| Imputed finance cost  | <b>69,209</b>  | 51,036  |
| Interest paid   | <b>(5,850)</b>   | –   |
| Non-current liability component as at<br>the balance sheet date | <b>286,647</b><br><i>(Note 2)</i>  | 274,324   |

- (b) The Company issued convertible bonds with a principal amount of US\$35 million. The convertible bonds are denominated in United State dollars. The convertible bonds holders are entitled to convert the convertible bonds into ordinary shares of the Company at a conversion price of HK\$0.8 per each ordinary share. If any of the convertible bonds have not been converted, they will be redeemed on the maturity date at 141.06% of the outstanding principal amount of the convertible bonds.

The convertible bonds contain two components: liability component and conversion option derivative. The effective interest rate of the liability component is 16.38%. The conversion option derivative is measured at fair value with changes in fair value recognised in profit and loss.

The movement of the liability component and conversion option derivative of the convertible bonds for the period is set out as below:

|                     | <b>Conversion<br/>option<br/>derivative<br/>component</b><br><i>HK\$'000</i> | <b>Liability<br/>component</b><br><i>HK\$'000</i> |
|---------------------|--|---|
| At 1 July 2008      | 100,861  | 196,773   |
| Interest expenses   | –  | 10,177  |
| At 31 December 2008 | 100,861<br><i>(Note 1)</i>   | 206,950<br><i>(Note 2)</i>                        |

*Note 1:* Recorded in current liabilities as derivative financial instruments.

*Note 2:* Total of approximately of HK\$493,597,000 (30 June 2008: HK\$471,097,000) is recorded as non-current liabilities.

**11. SHARE CAPITAL**

|   | <b>(Unaudited)</b> | (Audited) |
|---|--------------------|-----------|
|   | <b>31 December</b> | 30 June   |
|   | <b>2008</b>        | 2008      |
|   | <b>HK\$'000</b>    | HK\$'000  |
| <i>Authorised:</i>                            |                    |           |
| 20,000,000,000 (30 June 2008: 20,000,000,000) |                    |           |
| ordinary shares of HK\$0.01 each              | <b>200,000</b>     | 200,000   |
| <i>Issued and fully paid:</i>                 |                    |           |
| 3,214,234,000 (30 June 2008: 3,235,282,000)   |                    |           |
| ordinary shares of HK\$0.01 each              | <b>32,142</b>      | 32,353    |

**Share options**

The Company operates the share option scheme, details of the share option scheme of the Company are set out in the paragraph headed "Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation". At 31 December 2008, the Company had outstanding share options entitling the holders to subscribe for 84,100,000 shares in the Company.

**Warrants**

On 1 November 2006, a bonus issue of 124,810,561 warrants was made on the basis of one warrant for every five issued shares held on 24 October 2006. Each warrant entitles its holder to subscribe in cash at a price of HK\$1.33 for one share of the Company at any time from 3 November 2006 to 2 November 2008, both days inclusive. 16,600 warrants were exercised during the period and the balance of warrants expired on 31 October 2008.

**Repurchase of shares**

The Company has repurchased a total of 21,065,000 ordinary shares of the Company on the Exchange during the six months ended 31 December 2008.

## 12. PLEDGE OF ASSETS

As at 31 December 2008, the Group has pledged all the issued and outstanding shares of Birdview Group Limited (a wholly-owned subsidiary of Grand Promise International Limited (“Grand Promise”)) together with all proceeds in favor of the holder(s) of the convertible bonds previously issued by Grand Promise; and by the Deeds of Adherence on completion of acquisition of Grand Promise in April 2008, the convertible bonds were taken up by the Company.

At 31 December 2008, the Group has pledged its bank deposits of approximately HK\$5,083,000 (30 June 2008: HK\$5,033,000) as security for the general banking facilities granted to the Group. As at 31 December 2008, the 100% of the issued share capital of Good United Management Limited (“GUM”), a subsidiary of the Company, was pledged in favors of the holder(s) of the convertible bonds issued by Aptus on 22 November 2006. GUM held 70% equity interest in CNPC Huayou Cu Energy Investment Co. Limited, which owned profit sharing rights on Xin Jiang Oilfield. In addition, borrowings of approximately HK\$59,977,000 (30 June 2008: HK\$60,020,000) has been secured by the gas network of a jointly controlled entity, Hunan Huayou Natural Gas Transportation & Distribution Company Limited.

## 13. OPERATING LEASES COMMITMENTS

### The Group as lessee

At 31 December 2008, the Group was committed to make the following future minimum lease payments under non-cancellable operating leases which fall due as follows:

|                                       | <b>(Unaudited)</b><br><b>31 December</b><br><b>2008</b><br><b>HK\$'000</b> | (Audited)<br>30 June<br>2008<br><i>HK\$'000</i> |
|---------------------------------------|--|---|
| Within one year                       | <b>7,133</b>   | 4,038   |
| In the second to fifth year inclusive | <b>7,273</b>   | 2,880   |
|                                       | <b>14,406</b>  | 6,918   |

Operating lease payments represent rentals payable by the Group for certain of its office properties.



**The Group as lessor**

At 31 December 2008, the Group had contracted with tenants for the following minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

|                                       | <b>(Unaudited)</b><br><b>31 December</b><br><b>2008</b><br><i>HK\$'000</i> | (Audited)<br>30 June<br>2008<br><i>HK\$'000</i> |
|---------------------------------------|--|---|
| Within one year                       | <b>290</b>   | 314   |
| In the second to fifth year inclusive | <b>167</b>   | 263   |
|                                       | <b>457</b>   | 577   |

Leases are negotiated for an average term of 2 years.

**14. CAPITAL COMMITMENTS**

|   | <b>(Unaudited)</b><br><b>31 December</b><br><b>2008</b><br><i>HK\$'000</i> | (Audited)<br>30 June<br>2008<br><i>HK\$'000</i> |
|---|--|---|
| Capital expenditure in respect of the capital injection to a subsidiary |  |   |
| – authorised but not contracted for                                     | <b>44,189</b>  | 44,220  |

**15. COMPARATIVE FIGURES**

Certain comparative figures have been restated to conform with current period's presentation.

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## MANAGEMENT DISCUSSION AND ANALYSIS

### Background

The Group is engaged in (1) lottery-related businesses in the PRC via our subsidiary Shenzhen Bozone IT Co., Ltd. (“Bozone”); (2) oil and gas-related businesses via an indirect non wholly-owned subsidiary listed on GEM, Aptus Holdings Limited (“Aptus”); and (3) the nationwide karaoke content management service system (“Karaoke CMS”) (卡拉OK內容管理服務系統), technology platform for intellectual property (“IP”) protection and value-added services (“VAS”) for the karaoke industry (in the entertainment sector) in the PRC via Grand Promise International Limited (“Grand Promise”).

### A major initiative undertaken in last fiscal year

The completion of the acquisition of Grand Promise in April 2008 by the Group gave the Group an effective 49% interest in China Culture Development Digital Technology Co., Ltd. (“CCDDT”) (北京中文發數字科技有限公司), a company that was granted the nationwide exclusive right, for the life of the joint venture (i.e. 30 years), by the Ministry of Culture Market Development Center (文化部文化市場發展中心) to establish and operate the Karaoke CMS. CCDDT and Excellent Union Communication Group Co. Ltd. (“Excellent Union”) (天合文化集團有限公司) (formerly known as Beijing Tian He Culture Co. Ltd.) (北京天合文化有限公司), a jointly controlled entity of CCDDT is carrying out copyright transactions of karaoke programmes between intellectual property owners (“IP Owners”) and karaoke venues via the Karaoke CMS, and also provide technical support and operational services for VAS at karaoke venues.

The China Audio-Video Copyright Association (“CAVCA”) (中國音像著作權集體管理協會), representing most of the Chinese language music and a large portion of foreign language music (including copyrights of songs from four major international record labels and more than 80 other well-known record labels in the PRC, Hong Kong and Taiwan), chose to work with Excellent Union on an exclusive basis for 10 years to collect copyright fees from karaoke venues via utilising the Karaoke CMS. In addition, CCDDT and Excellent Union (together “CCDDT Group”) would also be carrying out technical support and operational services for VAS in karaoke venues via the Karaoke CMS.

CCDDT will be accounted for as a jointly controlled entity and will be proportionately consolidated into the Group’s financial statements.

## Financial Review

For the six months ended 31 December 2008 ("Period 2008") the Group's unaudited consolidated revenue was approximately HK\$94,563,000, which represented an increase of approximately 25.9% as compared to approximately HK\$75,136,000 for the six months ended 31 December 2007 ("Period 2007"). A portion of the increase was contributed by the newly acquired CCDDT Group. Excellent Union has begun formal collection of copyright fees on behalf of the IP Owners from karaoke venues in 16 provinces in the PRC. The CCDDT Group contributed approximately HK\$9,533,000 of service fee income for the Group.

As for the natural gas-related operations, Changde Huayou Gas Co., Ltd ("Changde Joint Venture") and Hunan Huayou Natural Gas Transportation and Distribution Limited ("Hunan Joint Venture") (together "Natural Gas Joint Ventures") also recorded significant growth in revenues as compared to the previous corresponding period. The Natural Gas Joint Ventures contributed approximately HK\$46,586,000 in revenue as compared to approximately HK\$31,522,000 for Period 2007, an increase of about 47.8%. As for the edible oil trading business, the Group recorded a decrease of about 25.9% in revenue from approximately HK\$24,678,000 recorded in the Period 2007 as compared to approximately HK\$18,292,000 for the Period 2008 which was resulted from the continuous increase in the price of consumer goods thus reducing demand. The revenue from the lottery-related operations increased by about 10.6% from approximately HK\$17,647,000 for Period 2007 to approximately HK\$19,517,000 for Period 2008.

The gross profit for Period 2008 increased by approximately 32.6% to approximately HK\$32,493,000 (Period 2007: approximately HK\$24,507,000). The contributions of gross profit from the principal operating units are as follow: (i) Karaoke CMS contributed approximately HK\$2,698,000; (ii) the lottery-related operations contributed approximately HK\$18,028,000 and (iii) the oil and gas-related operations contributed approximately HK\$11,798,000. Overall, the gross profit ratio increased slightly to approximately 34.4% for Period 2008 as compared to approximately 32.6% recorded for Period 2007.

For the six months ended 31 December 2008, loss recorded was approximately HK\$45,920,000 (Period 2007: approximately loss of HK\$29,931,000 was recorded), an increase of about 53.4% as compared to previous corresponding period. The bulk of the increase was mainly attributable to the net effect of: (i) nil share option expense charged against the Group's profit and loss account in Period 2008 from approximately HK\$8,537,000 in Period 2007; (ii) an increase in salary expenses from approximately HK\$11,045,000 in Period 2007 to approximately HK\$17,326,000 in Period 2008 due to increase in pay scale and increase in staff; (iii) increase in traveling expenses from approximately HK\$1,582,000 in Period 2007 to approximately HK\$3,256,000 in Period 2008 due to more business traveling to and within the PRC; (iv) increase in rental expenses from approximately HK\$1,865,000 in Period 2007 to HK\$2,476,000 in Period 2008; (v) absorption of expenses from CCDDT Group in Period 2008 whereas none in the Period 2007; (vi) increase in financing expenses from approximately HK\$17,713,000 in Period 2007 to approximately HK\$32,813,000 in Period 2008 mainly due to the assumption of the Grand Promise convertible bonds; and (vii) general increase in operating expenses.

During the period under review, there were disposals of a subsidiary of a jointly controlled entity and associated companies.

## 2008 Warrants

The listing of the 2008 Warrants has been withdrawn at the close of business on 31 October 2008.

## Financial resources and liquidity

As at 31 December 2008, the Group enjoyed a healthy financial position, with cash and bank balances of approximately HK\$290,045,000 (30 June 2008: approximately HK\$297,633,000). Net asset value per share was approximately HK\$0.69 (30 June 2008: approximately HK\$0.70), and current assets stood at approximately HK\$355,743,000 (30 June 2008: approximately HK\$420,164,000). The gearing ratio was 10.4% as at 31 December 2008 (30 June 2008: 10.3%). Gearing ratio is calculated as current liabilities divided by total equity.

## Exposure to fluctuations in exchange rates and any related hedges

No significant exchange risk is expected as the Group's cash, borrowings, income and expenses are settled in Hong Kong dollars, RMB or US dollars. The Group's major investment and financing strategies are to invest in domestic projects in the PRC by Hong Kong dollars and US dollars borrowings. As significant RMB depreciation is not expected in the foreseeable future and the Group's operating income is substantially denominated in RMB, the Group did not perform any foreign currency hedging activities during the period. Nevertheless, the Group will from time to time review and adjust the Group's investment and financing strategies based on the RMB, US dollars and Hong Kong dollars exchange rate movement.

## Capital structure

During the six months ended 31 December 2008, 16,600 shares were issued due to the exercises of warrants and 21,065,000 shares have been repurchased.

## Charges on the Group assets

As at 31 December 2008, the Group has pledged all the issued and outstanding shares of Birdview Group Limited (a wholly-owned subsidiary of Grand Promise) together with all proceeds in favor of the holder(s) of the convertible bonds previously issued by Grand Promise; and by the Deeds of Adherence on completion of acquisition of Grand Promise in April 2008, the convertible bonds were taken up by the Company.

At 31 December 2008, the Group has pledged its bank deposits of approximately HK\$5,083,000 (30 June 2008: HK\$5,033,000) as security for the general banking facilities granted to the Group. As at 31 December 2008, the 100% of the issued share capital of Good United Management Limited ("GUM"), a subsidiary of the Company, was pledged in favors of the holder(s) of the convertible bonds issued by Aptus on 22 November 2006. GUM held 70% equity interest in CNPC Huayou Cu Energy Investment Co. Limited, which owned profit sharing rights on Xin Jiang Oilfield. In addition, borrowings of approximately HK\$59,977,000 (30 June 2008: HK\$60,020,000) has been secured by the gas network of a jointly controlled entity, Hunan Huayou Natural Gas Transportation & Distribution Company Limited.

## Contingent liabilities

The Group did not have any contingent liabilities as at 31 December 2008 (30 June 2008: Nil).

## Commitments

The Group had capital commitments of approximately HK\$44,189,000 and operating leases commitments (i) as lessee of approximately HK\$14,406,000 and (ii) as lessor of approximately HK\$457,000 as at 31 December 2008 (30 June 2008: approximately HK\$44,220,000, approximately HK\$6,918,000 and approximately HK\$577,000 respectively).

## Significant investments and acquisitions

Except there were disposals of a subsidiary of a jointly controlled entity and associated companies, the Group did not make any material acquisition or disposal of subsidiaries and affiliated companies during the six months ended 31 December 2008.

## Employees

The Group, including jointly controlled entities, employed 868 employees as at 31 December 2008 (30 June 2008: 597). Employees' remuneration is in line with market conditions, working experience and performance. In addition to basic salaries and provident fund contributions, the Group also offers medical benefit and training programs.

## Business Review

During the period under review, the Group continued to develop its: (1) technology platform for IP protection and VAS in the entertainment sector; (2) lottery-related operations in the PRC; and (3) oil and gas-related operations, with the aim to improve the overall financial position of the Group.

Excellent Union began formal collection of copyright fees from karaoke venues in July 2008 and is now collecting in 16 provinces in the PRC on behalf of CAVCA and IP Owners while CCDDT is in the process of implementing the Karaoke CMS in 29 provinces.

Bozone and its subsidiaries ("Bozone Group"), our subsidiary in PRC traditional welfare lottery-related operations, has emerged to become one of the most competitive professional providers of technology, products and operation services in the Welfare Lottery sector in the PRC and has assisted its customers to achieve remarkable results.

For Aptus, operationally, the results continue predominately reflect the trading of edible oil products and the distribution of natural gas. The Changde Joint Venture has completed about 752 km of city-level pipelines connecting approximately 290 commercial and public welfare establishment users, 8 industrial users, and approximately 59,000 residential users to its network as of the date of this report with sales of about 27.2 million cubic meters of natural gas for Period 2008, an increase of 47.8% as compared to sales of about 18.4 million cubic meters of natural gas for Period 2007. The Hunan Joint Venture has completed the construction of its main pipelines (about 188 km in total) branching out to reach 7 city-level gas distribution stations in the province of Hunan. The Hunan Joint Venture transported about 31.7 million cubic meters of natural gas to the 7 city-level gas distribution stations, an increase of approximately 55.4% as compared to 20.4 million cubic meters in Period 2007.

With regards to Aptus' convertible bonds, during the period under review Aptus has signed 2 amendment deeds with the bondholder(s) amending the terms and conditions of the bonds which will be regarded as deemed disposal of Aptus by the Company by potential dilution arising from the issue of shares of Aptus upon conversion of the amended bonds. For further details, please refer to the circular dated 21 January 2009 issued by the Company.

## **Future Outlook and Prospects**

It is the Group's objective to become the leader in culture and intellectual property related industries in the PRC. Excellent Union is targeting to commence collection of copyright fees on behalf of IP Owners in all 31 provinces and direct jurisdiction cities by the end of year 2009. Meanwhile, CCDDT and Excellent Union will simultaneously work to develop and rollout VAS of the platform.

The Company believes the tapping into the new business of the Karaoke CMS will broaden the Group's revenue base and help to diversify the overall business risks of the Group.

It is our objective to become a major vertically integrated player in the PRC lottery-related sector, and with our branch office in Beijing we are a step closer to our aim of becoming a one-stop solution provider to Lottery Centers across the PRC. Bozone is currently ranked as the third largest lottery solution provider to the Welfare Lottery in the PRC. We will continue building on our existing products and further develop in the area of POS machines. We will also continue to search for opportunities to expand geographically within the PRC and internationally.

At Aptus, we will continue to concentrate on scaling up operation at the Natural Gas Joint Ventures in the Hunan province to further enhance the contribution of revenue from this operating unit. Regarding the Xin Jiang Oilfield, we will continue to focus in bringing on commercial production which would enable the Group to enjoy strong cash flow and capitalize on the demand for crude oil.

Management will continue utilising the existing resources of the Group and the synergies created between the various operating units to explore in other opportunities with the view and desire to bringing in positive results for the shareholders.

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

As at 31 December 2008, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the 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 Exchange, were as follows:

### **(1) Long positions in the ordinary shares of the Company or any of its associated corporations**

|                 | Company/<br>Name of<br>associated<br>corporation | Number of ordinary shares held           |                              |   | Total<br>interest | Approximate<br>percentage of<br>shareholding |
|-----------------|--|--|------------------------------|---|-------------------|--|
|                 |  | Interest in<br>controlled<br>corporation | Beneficial<br>owner          | Family<br>interest                        |                   |  |
| Cheung Kwai Lan | Company  | 2,095,857,322<br><i>(Note 1)</i>         | 2,070,000<br><i>(Note 2)</i> | -   | 2,097,927,322     | 65.27%                                       |
| Chan Tung Mei   | Company  | -  | -                            | 2,097,927,322<br><i>(Notes 1 &amp; 2)</i> | 2,097,927,322     | 65.27%                                       |
| Lau Hin Kun     | Company  | -  | 1,410,000                    | -   | 1,410,000         | 0.04%  |
| Cheung Kwai Lan | Best Frontier<br>Investments<br>Limited          | -  | 909                          | 1<br><i>(Note 3)</i>                      | 910               | -  |
| Chan Tung Mei   | Best Frontier<br>Investments<br>Limited          | -  | 1                            | 909<br><i>(Note 3)</i>                    | 910               | -  |
| Cheung Kwai Lan | Aptus Holdings<br>Limited                        | 971,746,428<br><i>(Note 4)</i>           | -                            | -   | 971,746,428       | 55.23%                                       |
| Chan Tung Mei   | Aptus Holdings<br>Limited                        | -  | -                            | 971,746,428<br><i>(Note 4)</i>            | 971,746,428       | 55.23%                                       |

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*Notes:*

1. The 2,095,857,322 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 who are spouse to each other. Accordingly, Madam Cheung Kwai Lan is deemed to be interested in the shares held by Best Frontier and Mr. Chan Tung Mei is deemed to be interested in all 2,097,927,322 shares by virtue of being the spouse of Madam Cheung Kwai Lan under the SFO.
2. The 2,070,000 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.
3. The 1 share and 909 shares of US\$1 each in Best Frontier is owned respectively by Mr. Chan Tung Mei and Madam Cheung Kwai Lan who are spouse to each other. Accordingly, Madam Cheung Kwai Lan and Mr. Chan Tung Mei are deemed to be interested in the shares held by each other under the SFO.
4. 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. Madam Cheung Kwai Lan and Mr. Chan Tung Mei are spouse to each other. Accordingly, Madam Cheung Kwai Lan is deemed to be 100% interested in the shares of Best Frontier, and Mr. Chan Tung Mei is also deemed to be interested in the shares of Best Frontier by virtue of being the spouse of Madam Cheung Kwai Lan under the SFO. As at 31 December 2008, Best Frontier is interested in approximately 65.21% of the issued share capital of the Company which in turn holds directly 100% shareholding of China Success Enterprises Limited and holds indirectly 100% shareholding of Precise Result Profits Limited, the company directly holding 971,746,428 Aptus shares of which, 48,750,000 Aptus shares has been lent to Evolution Master Fund Ltd. SPC, Segregated Portfolio M pursuant to a stock lending agreement dated 22 November 2006.

## **(2) Share options of the Company**

The Company has adopted a share option scheme on 18 October 2002 (the “Share Option Scheme”), under which the Board may, at its discretion, invite any persons who satisfies 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.



| Name of Directors  | Date of grant | Exercise Price<br>HK\$ | Outstanding at 1 July 2008 | Granted during the period | Exercised during the period | Lapsed during the period | Outstanding at 31 December 2008 | Exercise period of share options |
|--------------------|---------------|------------------------|----------------------------|---------------------------|-----------------------------|--------------------------|---------------------------------|----------------------------------|
| Cheung Kwai Lan    | 23/11/06      | 0.62                   | 1,560,000                  | -                         | -                           | -                        | 1,560,000                       | 23/11/2006 – 17/10/2012          |
|                    | 23/11/06      | 0.62                   | 1,560,000                  | -                         | -                           | -                        | 1,560,000                       | 23/5/2007 – 17/10/2012           |
|                    | 23/11/06      | 0.62                   | 3,120,000                  | -                         | -                           | -                        | 3,120,000                       | 23/11/2007 – 17/10/2012          |
| Chan Tung Mei      | 23/11/06      | 0.62                   | 1,560,000                  | -                         | -                           | -                        | 1,560,000                       | 23/11/2006 – 17/10/2012          |
|                    | 23/11/06      | 0.62                   | 1,560,000                  | -                         | -                           | -                        | 1,560,000                       | 23/5/2007 – 17/10/2012           |
|                    | 23/11/06      | 0.62                   | 3,120,000                  | -                         | -                           | -                        | 3,120,000                       | 23/11/2007 – 17/10/2012          |
| Chan Ting          | 23/11/06      | 0.62                   | 1,560,000                  | -                         | -                           | -                        | 1,560,000                       | 23/11/2006 – 17/10/2012          |
|                    | 23/11/06      | 0.62                   | 1,560,000                  | -                         | -                           | -                        | 1,560,000                       | 23/5/2007 – 17/10/2012           |
|                    | 23/11/06      | 0.62                   | 3,120,000                  | -                         | -                           | -                        | 3,120,000                       | 23/11/2007 – 17/10/2012          |
| Lau Hin Kun        | 23/11/06      | 0.62                   | 350,000                    | -                         | -                           | -                        | 350,000                         | 23/11/2006 – 17/10/2012          |
|                    | 23/11/06      | 0.62                   | 350,000                    | -                         | -                           | -                        | 350,000                         | 23/5/2007 – 17/10/2012           |
|                    | 23/11/06      | 0.62                   | 700,000                    | -                         | -                           | -                        | 700,000                         | 23/11/2007 – 17/10/2012          |
| Tian He Nian       | 23/11/06      | 0.62                   | 260,000                    | -                         | -                           | -                        | 260,000                         | 23/11/2006 – 17/10/2012          |
|                    | 23/11/06      | 0.62                   | 260,000                    | -                         | -                           | -                        | 260,000                         | 23/5/2007 – 17/10/2012           |
|                    | 23/11/06      | 0.62                   | 530,000                    | -                         | -                           | -                        | 530,000                         | 23/11/2007 – 17/10/2012          |
| Zhao Zhi Ming      | 23/11/06      | 0.62                   | 260,000                    | -                         | -                           | -                        | 260,000                         | 23/11/2006 – 17/10/2012          |
|                    | 23/11/06      | 0.62                   | 260,000                    | -                         | -                           | -                        | 260,000                         | 23/5/2007 – 17/10/2012           |
|                    | 23/11/06      | 0.62                   | 530,000                    | -                         | -                           | -                        | 530,000                         | 23/11/2007 – 17/10/2012          |
| To Yan Ming Edmond | 23/11/06      | 0.62                   | 260,000                    | -                         | -                           | -                        | 260,000                         | 23/11/2006 – 17/10/2012          |
|                    | 23/11/06      | 0.62                   | 260,000                    | -                         | -                           | -                        | 260,000                         | 23/5/2007 – 17/10/2012           |
|                    | 23/11/06      | 0.62                   | 530,000                    | -                         | -                           | -                        | 530,000                         | 23/11/2007 – 17/10/2012          |
| <b>Total</b>       |               |                        | <b>23,270,000</b>          | <b>-</b>                  | <b>-</b>                    | <b>-</b>                 | <b>23,270,000</b>               |                                  |

Save as disclosed herein, as at 31 December 2008, none of the Directors or chief executives of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the 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 required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Exchange.

## **ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES**

Save as disclosed in the section headed “Directors’ and chief executives’ interests and short positions in shares, underlying shares and debentures of the Company or any associated corporation” above, at no time during the period was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors and chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any body corporate, and none of the directors and chief executives or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the three months and six months ended 31 December 2008.

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

As at 31 December 2008, according to the register kept by the Company pursuant to section 336 of SFO, and so far as is known to the Directors or chief executives of the Company, the following persons (other than a Director or chief executive of the Company) had, or was deemed or taken to have, an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital, carrying rights to vote in all circumstances at general meeting of any member of the Group:

### (1) Long positions in the Shares

| Name of Shareholder | Capacity         | Number of shares held |                | Approximate percentage of shareholding |
|---------------------|------------------|-----------------------|----------------|--|
|                     |                  | Long position         | Short position |  |
| Best Frontier       | Beneficial owner | 2,095,857,322         | –              | 65.21%                                 |
|                     |                  | (Note 1)              |                |  |

*Note:*

- The 2,095,857,322 shares are owned by Best Frontier which is owned as to 99.89% and 0.11% by Madam Cheung Kwai Lan and Mr. Chan Tung Mei who are spouse to each other.

**(2) Long positions in underlying Shares**

| Name of Shareholder           | Capacity                           | Number of shares held          |                | Approximate percentage of shareholding |
|-------------------------------|------------------------------------|--------------------------------|----------------|--|
|                               |                                    | Long position                  | Short position |  |
| The Goldman Sachs Group, Inc. | Interest in controlled corporation | 343,211,215<br><i>(note 1)</i> | –              | 10.68%                                 |

*Notes:*

1. A maximum of 343,211,215 new shares will be allotted and issued to Liberty Harbor Master Fund I, L.P. ("Liberty Harbor") upon its exercise of the exchange option under the convertible bonds (which was assumed by the Company when acquired Grand Promise International Limited). Liberty Harbor is advised by GS Investment Strategies, LLC, a Delaware limited liability company, whose sole member is The Goldman Sachs Group, Inc., a Delaware corporation.

Save as disclosed above, as at 31 December 2008, the Directors or chief executives of the Company were not aware of any person (other than a Director or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, was, directly or indirectly, interest in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group.

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## 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.

## CORPORATE GOVERNANCE

The Company has committed itself to a high standard of corporate governance. The Directors strongly believe that reasonable and sound corporate governance practices are vital to the Group's rapid growth and to safeguarding and enhancing shareholders' interests.

The provision A.4.1 of the Code on Corporate Governance Practices (the "Code on CGP") as set out in Appendix 15 of the GEM Listing Rules provides that Non-executive Directors should be appointed for specific terms, subject to re-election. The Company has deviated from this provision in that all Independent Non-executive Directors are not appointed for specific terms. They are, however, subject to retirement and re-election every three years. The reason for the deviation is that the Company does not believe that arbitrary term limits on Directors' service are appropriate given that Directors ought to be committed to representing the long term interests of the Company's shareholders and the retirement and re-election requirements of Independent Non-executive Directors have given the Company's shareholders the right to approve continuation of Independent Non-executive Directors' offices.

Except for the deviation from the provision A.4.1 of the Code on CGP, the Company has complied with all remaining provisions of the Code on CGP during the six months ended 31 December 2008.

The Directors will review the corporate governance structure and practices from time to time and shall make necessary arrangement when the Board consider appropriate.

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## **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 throughout the six months ended 31 December 2008.

## **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Articles or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## **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 four independent non-executive Directors, namely Mr. Tian He Nian, Mr. Zhang Xiu Fu, 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 results for the three months and the six months ended 31 December 2008 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.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company has repurchased a total of 21,065,000 ordinary shares of the Company on the Exchange in September, October and December 2008 for an aggregate amount of approximately HK\$10,802,000 excluding of transaction cost. The Directors believe that such repurchases will lead to an enhancement of the net asset value of the Company and/or its earnings per share and will benefit the Company and the Company's shareholders. Details of the share repurchases were as follow:

| Date of Repurchase | Number of Shares repurchased | Price per share repurchased |               |
|--------------------|------------------------------|-----------------------------|---------------|
|                    |                              | Highest (HK\$)              | Lowest (HK\$) |
| 26 September 2008  | 1,475,000                    | 0.5400                      | 0.5300        |
| 29 September 2008  | 1,500,000                    | 0.5400                      | 0.5400        |
| 30 September 2008  | 1,500,000                    | 0.5700                      | 0.5500        |
| 2 October 2008     | 1,060,000                    | 0.5900                      | 0.5800        |
| 3 October 2008     | 30,000                       | 0.6100                      | 0.6100        |
| 6 October 2008     | 1,500,000                    | 0.6300                      | 0.6200        |
| 8 October 2008     | 1,500,000                    | 0.6000                      | 0.5800        |
| 9 October 2008     | 725,000                      | 0.6000                      | 0.6000        |
| 10 October 2008    | 2,500,000                    | 0.5900                      | 0.5200        |
| 1 December 2008    | 1,740,000                    | 0.4200                      | 0.3800        |
| 2 December 2008    | 655,000                      | 0.4100                      | 0.3850        |
| 3 December 2008    | 770,000                      | 0.4200                      | 0.4050        |
| 4 December 2008    | 470,000                      | 0.4250                      | 0.4200        |
| 5 December 2008    | 300,000                      | 0.4200                      | 0.4100        |
| 8 December 2008    | 300,000                      | 0.4250                      | 0.4150        |
| 9 December 2008    | 280,000                      | 0.4400                      | 0.4400        |
| 10 December 2008   | 305,000                      | 0.4450                      | 0.4300        |
| 11 December 2008   | 355,000                      | 0.4500                      | 0.4200        |
| 12 December 2008   | 520,000                      | 0.4550                      | 0.4350        |
| 18 December 2008   | 1,200,000                    | 0.4850                      | 0.4550        |
| 19 December 2008   | 650,000                      | 0.4850                      | 0.4500        |
| 22 December 2008   | 550,000                      | 0.4900                      | 0.4550        |
| 23 December 2008   | 630,000                      | 0.4800                      | 0.4600        |
| 24 December 2008   | 550,000                      | 0.4900                      | 0.4650        |
| <b>Total:</b>      | <b>21,065,000</b>            |                             |               |

11,790,000 repurchased shares have been cancelled and the balance 9,275,000 shares have been cancelled subsequent to the balance sheet date.

Save as disclosed herein, neither the Company, nor any its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the three months and the six months ended 31 December 2008.

By order of the Board

**CHAN Ting**

*Director*

Hong Kong, 12 February 2009

*As at the date of this report, the executive directors are Madam Cheung Kwai Lan, Mr. Chan Tung Mei, Mr. Chan Ting, Ms. Chan Siu Sarah and Mr. Lau Hin Kun and the independent non-executive directors are Mr. Tian He Nian, Mr. Zhang Xiu Fu, Mr. Zhao Zhi Ming and Mr. To Yan Ming Edmond.*