



**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

**THIRD 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 and nine months ended 31 March 2007, together with the comparative unaudited figures for the corresponding period in 2006, are as follows:

|  | Notes | (Unaudited)<br>Three months ended<br>31 March |           | (Unaudited)<br>Nine months ended<br>31 March |             |
|--|-------|---|-----------|--|-------------|
|  |       | 2007  | 2006      | 2007   | 2006        |
|  |       | HK\$'000                                      | HK\$'000  | HK\$'000                                     | HK\$'000    |
| <b>Continuing operations</b>                       |       |   |           |  |             |
| Revenue  | 2     | 24,114  | 10,360    | 58,541                                       | 24,056      |
| Cost of sales                                      |       | (14,410)                                      | (9,091)   | (37,742)                                     | (21,887)    |
| Gross profit                                       |       | 9,704   | 1,269     | 20,799                                       | 2,169       |
| Other revenue                                      |       | 276   | 33,041    | 1,898  | 33,506      |
| Selling and distribution costs                     |       | (673)   | (1,415)   | (2,114)                                      | (4,809)     |
| Administrative expenses                            |       | (32,863)                                      | (40,469)  | (117,396)                                    | (46,999)    |
| Loss from continuing operations                    |       | (23,556)                                      | (7,574)   | (96,813)                                     | (16,133)    |
| Finance costs                                      |       | (8,042)                                       | (933)     | (12,155)                                     | (2,076)     |
| Share of results of associated company             |       | -   | 9,219     | -  | 15,703      |
| (Loss)/profit before income tax                    |       | (31,598)                                      | 712       | (108,968)                                    | (2,506)     |
| Income tax expenses                                | 3     | (744)   | (2,644)   | (1,137)                                      | (4,295)     |
| Loss for the period from continuing operations     |       | (32,342)                                      | (1,932)   | (110,105)                                    | (6,801)     |
| <b>Discontinued operations</b>                     |       |   |           |  |             |
| Profit for the period from discontinued operations | 7     | -   | 2,101     | 29,342                                       | 16,537      |
| (Loss)/profit for the period                       |       | (32,342)                                      | 169       | (80,763)                                     | 9,736       |
| Attributable to:                                   |       |   |           |  |             |
| Shareholders of the Company                        |       | (21,327)                                      | 3,142     | (48,251)                                     | 15,232      |
| Minority interests                                 |       | (11,015)                                      | (2,973)   | (32,512)                                     | (5,496)     |
|  |       | (32,342)                                      | 169       | (80,763)                                     | 9,736       |
| Dividend per share                                 |       | -   | -         | -  | 0.5 cent    |
| (Loss)/earnings per share                          | 5     |   |           |  |             |
| From continuing and discontinued operations:       |       |   |           |  |             |
| Basic  |       | (2.28) cents                                  | 0.36 cent | (5.15) cents                                 | 1.86 cents  |
| Diluted  |       | (2.28) cents                                  | 0.35 cent | (5.03) cents                                 | 1.80 cents  |
| From continuing operations:                        |       |   |           |  |             |
| Basic  |       | (2.28) cents                                  | 0.12 cent | (8.29) cents                                 | (0.16) cent |
| Diluted  |       | (2.28) cents                                  | 0.12 cent | (8.08) cents                                 | (0.15) 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) operation of a gas pipeline and natural gas business.

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 (2006: 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 and nine months ended 31 March 2007 (three months and nine months ended 31 March 2006: nil and HK0.5 cent per share respectively).

## 5. (Loss)/earnings per share

*From continuing and discontinued operations*

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

### (Loss)/earnings

|  | <b>(Unaudited)</b>        |                 | <b>(Unaudited)</b>       |                 |
|--|---------------------------|-----------------|--------------------------|-----------------|
|  | <b>Three months ended</b> |                 | <b>Nine months ended</b> |                 |
|  | <b>31 March</b>           |                 | <b>31 March</b>          |                 |
|  | <b>2007</b>               | <b>2006</b>     | <b>2007</b>              | <b>2006</b>     |
|  | <i>HK\$'000</i>           | <i>HK\$'000</i> | <i>HK\$'000</i>          | <i>HK\$'000</i> |
| (Loss)/earnings for the purposes of basic and diluted (loss)/earnings per share ((loss)/profit for the period attributable to equity holders of the Company) | <b>(21,327)</b>           | 3,142           | <b>(48,251)</b>          | 15,232          |

### Number of shares

|  | <b>(Unaudited)</b>        |             | <b>(Unaudited)</b>       |             |
|--|---------------------------|-------------|--------------------------|-------------|
|  | <b>Three months ended</b> |             | <b>Nine months ended</b> |             |
|  | <b>31 March</b>           |             | <b>31 March</b>          |             |
|  | <b>2007</b>               | <b>2006</b> | <b>2007</b>              | <b>2006</b> |
|  | <i>'000</i>               | <i>'000</i> | <i>'000</i>              | <i>'000</i> |
| Weighted average number of ordinary shares for the purposes of basic (loss)/earnings per share   | <b>936,079</b>            | 866,806     | <b>936,079</b>           | 818,019     |
| Effect of dilutive potential ordinary shares:  |                           |             |                          |             |
| Share options  | <b>923</b>                | 30,076      | <b>23,987</b>            | 26,620      |
| Weighted average number of ordinary shares for the purposes of diluted (loss)/earnings per share | <b>937,002</b>            | 896,882     | <b>960,066</b>           | 844,639     |

***From continuing operations***

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

(Loss)/profit figures are calculated as follows:

|  | <b>(Unaudited)</b>        |                 | <b>(Unaudited)</b>       |                 |
|--|---------------------------|-----------------|--------------------------|-----------------|
|  | <b>Three months ended</b> |                 | <b>Nine months ended</b> |                 |
|  | <b>31 March</b>           |                 | <b>31 March</b>          |                 |
|  | <b>2007</b>               | <b>2006</b>     | <b>2007</b>              | <b>2006</b>     |
|  | <i>HK\$'000</i>           | <i>HK\$'000</i> | <i>HK\$'000</i>          | <i>HK\$'000</i> |
| (Loss)/profit for the period attributable to equity holders of the Company                               | <b>(21,327)</b>           | 3,142           | <b>(48,251)</b>          | 15,232          |
| Less:  |                           |                 |                          |                 |
| Profit for the period from discontinued operations   | –                         | 2,101           | <b>29,342</b>            | 16,537          |
| (Loss)/profit for the purposes of basic and diluted (loss)/earnings per share from continuing operations | <b>(21,327)</b>           | 1,041           | <b>(77,593)</b>          | (1,305)         |

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

***From discontinued operations***

Basic earnings per share for the discontinued operations is nil cent per share and 3.13 cents per share respectively for the three months and nine months ended 31 March 2007 (three months and nine months ended 31 March 2006: 0.24 cent per share and 2.02 cents per share respectively) and diluted earnings per share for the discontinued operations is nil cent per share and 3.06 cents per share respectively for the three months and nine months ended 31 March 2007 (three months and nine months ended 31 March 2006: 0.23 cent per share and 1.96 cents per share respectively), based on the profit for the period from the discontinued operations of HK\$nil and HK\$29,342,000 for the three months and nine months ended 31 March 2007 (three months and nine months ended 31 March 2006: HK\$2,101,000 and HK\$16,537,000 respectively) and the denominators detailed above for both basic and diluted (loss)/earnings per share.

## 6. Movement of reserves

|   | (Unaudited)<br>Share compensation<br>premium<br>HK\$'000 | (Unaudited)<br>Employee<br>Share-based<br>compensation<br>reserve<br>HK\$'000 | (Unaudited)<br>Share<br>options<br>reserve<br>HK\$'000 | (Unaudited)<br>Equity<br>component of<br>convertible<br>bonds<br>HK\$'000 | (Unaudited)<br>Translation<br>reserve<br>HK\$'000 | (Unaudited)<br>Special<br>reserve<br>HK\$'000 | (Unaudited)<br>Retained<br>profit/<br>(Accumulated<br>losses)<br>HK\$'000 | (Unaudited)<br>Total<br>HK\$'000 |
|---|--|---|--|---|---|---|---|----------------------------------|
| At 1 July 2006  | 290,004  | 35,572  | 39,399   | -   | 1,935   | (1)   | 24,808  | 391,717                          |
| Issue of bonus shares   | (3,120)  | -   | -  | -   | -   | -   | -   | (3,120)                          |
| Exchange differences arising from<br>translation of financial statements<br>of overseas operation | -  | -   | -  | -   | 3,205   | -   | -   | 3,205                            |
| Issue of convertible bonds  | -  | -   | -  | 10,712  | -   | -   | -   | 10,712                           |
| Recognition of equity-settled<br>share based payments   | -  | -   | 73,869   | -   | -   | -   | -   | 73,869                           |
| Net loss for the period   | -  | -   | -  | -   | -   | -   | (48,251)  | (48,251)                         |
| At 31 March 2007  | 286,884  | 35,572  | 113,268  | 10,712  | 5,140   | (1)   | (23,443)  | 428,132                          |

|  | (Unaudited)<br>Share compensation<br>premium<br>HK\$'000 | (Unaudited)<br>Employee<br>share-based<br>compensation<br>reserve<br>HK\$'000 | (Unaudited)<br>Share<br>options<br>reserve<br>HK\$'000 | (Unaudited)<br>Translation<br>reserve<br>HK\$'000 | (Unaudited)<br>Special<br>reserve<br>HK\$'000 | (Unaudited)<br>Retained<br>profit and<br>proposed<br>dividend<br>HK\$'000 | (Unaudited)<br>Total<br>HK\$'000 |
|--|--|---|--|---|---|---|----------------------------------|
| At 1 July 2005   | 80,825   | -   | -  | -   | (1)   | 74,997  | 155,821                          |
| Issue of shares pursuant to placing<br>Issue of shares pursuant to<br>an acquisition of subsidiaries | 145,520  | -   | -  | -   | -   | -   | 145,520                          |
| Issue of shares pursuant<br>to share award scheme  | 69,715   | -   | -  | -   | -   | -   | 69,715                           |
| Issue of shares pursuant to<br>exercises of share options  | -  | 25,222  | -  | -   | -   | -   | 25,222                           |
| Issue of shares pursuant to<br>exercises of share options  | 317  | -   | -  | -   | -   | -   | 317                              |
| Recognition of equity-settled<br>share based payments  | -  | -   | 8,856  | -   | -   | -   | 8,856                            |
| Share issue expenses   | (6,375)  | -   | -  | -   | -   | -   | (6,375)                          |
| Exchange differences arising<br>from translation of financial<br>statements of overseas operation    | -  | -   | -  | 966   | -   | -   | 966                              |
| Net profit for the period  | -  | -   | -  | -   | -   | 15,232  | 15,232                           |
| Final dividend paid for the year<br>ended 30 June 2005   | -  | -   | -  | -   | -   | (7,232)   | (7,232)                          |
| At 31 March 2006   | 290,002  | 25,222  | 8,856  | 966   | (1)   | 82,997  | 408,042                          |

## 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:

|   | <b>(Unaudited)</b>        |                 | <b>(Unaudited)</b>       |                 |
|---|---------------------------|-----------------|--------------------------|-----------------|
|   | <b>Three months ended</b> |                 | <b>Nine months ended</b> |                 |
|   | <b>31 March</b>           |                 | <b>31 March</b>          |                 |
|   | <b>2007</b>               | <b>2006</b>     | <b>2007</b>              | <b>2006</b>     |
|   | <i>HK\$'000</i>           | <i>HK\$'000</i> | <i>HK\$'000</i>          | <i>HK\$'000</i> |
| Manufacturing and distribution of honey mead  | –                         | 2,101           | <b>380</b>               | 16,537          |
| Gain on disposal of interests in subsidiaries | –                         | –               | <b>28,962</b>            | –               |
|   | –                         | 2,101           | <b>29,342</b>            | 16,537          |

The results of the manufacturing and distribution of honey mead for the three months and nine months ended 31 March 2007 were as follows:

|                                | <b>(Unaudited)</b>        |                 | <b>(Unaudited)</b>       |                 |
|--------------------------------|---------------------------|-----------------|--------------------------|-----------------|
|                                | <b>Three months ended</b> |                 | <b>Nine months ended</b> |                 |
|                                | <b>31 March</b>           |                 | <b>31 March</b>          |                 |
|                                | <b>2007</b>               | <b>2006</b>     | <b>2007</b>              | <b>2006</b>     |
|                                | <i>HK\$'000</i>           | <i>HK\$'000</i> | <i>HK\$'000</i>          | <i>HK\$'000</i> |
| Revenue                        | –                         | 5,059           | <b>929</b>               | 35,424          |
| Cost of sales                  | –                         | (2,403)         | <b>(473)</b>             | (16,051)        |
| Gross profit                   | –                         | 2,656           | <b>456</b>               | 19,373          |
| Other revenue                  | –                         | –               | –                        | 26              |
| Selling and distribution costs | –                         | (113)           | <b>(21)</b>              | (778)           |
| Administrative expenses        | –                         | (180)           | <b>(13)</b>              | (575)           |
| Finance costs                  | –                         | (92)            | <b>(11)</b>              | (289)           |
| Profit before income tax       | –                         | 2,271           | <b>411</b>               | 17,757          |
| Income tax expenses            | –                         | (170)           | <b>(31)</b>              | (1,220)         |
| Profit for the period          | –                         | 2,101           | <b>380</b>               | 16,537          |

## 8. Comparative figures

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



## 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 nine months ended 31 March 2007, the Group's unaudited consolidated revenue from continuing operations and net loss/profit attributable to shareholders were approximately HK\$58,541,000 (2006: HK\$24,056,000) and HK\$48,251,000 (loss) (2006: HK\$15,232,000 (profit)) respectively. There was an approximate 143% increase in revenue with an approximate 417% decrease in net profit attributable to shareholders over the corresponding period of last year. Gross profit ratio was approximately 35.53% for the nine months period under review (2006: 9.02%).

The increase in revenue was due to: (i) a revenue contribution of approximately HK\$23,435,000 from the provision of lottery-related hardware and software systems segment against HK\$2,407,000 in the previous corresponding period; (ii) a maiden contribution from Aptus' new gas operations; and (iii) the increase of sales of edible oil, which resulted from lower selling prices which were reduced to stimulate the sales.

The Group's lottery related operations continued to grow strongly. For the nine months ended 31 March 2007, these operations recorded a revenue of approximately HK\$23,435,000 against a maiden contribution of approximately HK\$2,407,000 previously. EBITDA (before minority interest) of these operations for the period under review was approximately HK\$12,105,000 against approximately HK\$688,000 previously.

During the period under review, there the Group recorded a net loss of HK\$48,251,000 against a net profit of HK\$15,232,000 previously. The bulk of the differential was due to: (i) a HK\$39,446,000 increase in share related expenses (approximately HK\$73,869,000 in share option expenses charged to the profit and loss this period against approximately HK\$34,423,000 in share option expenses and share awards expenses charged in the previous corresponding period); (ii) lower one off gains (approximately HK\$28,962,000 in gains on disposal of certain subsidiaries in the period under review against a gain on partial disposal of shares in a subsidiary of HK\$32,349,000 in the previous corresponding period); (iii) increased finance charges which increased by HK\$10,079,000 due predominantly to the financing of the transition of Aptus from an edible oil products trading company into an oil and gas related company; and (iv) no further contribution from prior associate Your Mart Co. Limited which was disposed of in 2006 to better focus our resources on the China lottery related operations and the businesses of Aptus.

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## Business Review

During the period under review, the Group continued to work on the development of its China lottery related operations, oil mining and gas related business. Shenzhen Bozone IT Co. Limited (Bozone), our flagship vehicle in the China traditional social welfare lottery space, made its 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. During the period under review, Bozone operated in Heilongjiang, Shenzhen and 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 regards Aptus, the results continue to predominantly reflect the trading of edible oil products since Aptus' investment in Hunan Joint Ventures for participating in gas business in the PRC were only completed in February 2007. Further, whilst drilling at the Group's Xin Jiang Oilfield has been in progress, the commercial production of crude has not yet commenced as at 31 March 2007.

For the nine months ended 31 March 2007, Aptus recorded an unaudited consolidated turnover of approximately HK\$30.7 million, which represented an increase of approximately 50.5%. The increase was due to a 21% increase in revenue from the edible oil products trading business to HK\$26.7 million and the balance was due to the maiden contribution from our attributable share of turnover from the Hunan Joint Ventures in this quarter of approximately HK\$4.0 million.

As the Hunan Joint Ventures were only completed in February 2007, the Group's share of turnover for this quarter was just approximately HK\$4 million. Further, as Hunan Huayou Natural Gas Transportation & Distribution Gas Co. Ltd., one of Hunan Joint Ventures, commenced business in late 2006, its operating scale was still minimal in this quarter. As a result, only a minimal turnover contribution from this joint venture was reflected in Aptus' accounts.

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, to bring onstream production at Xin Jiang Oilfield, an oilfield development project in Feng Cheng, Xin Jiang in the PRC in which Aptus Holdings Limited has a 70% stake. At the time of writing this quarterly report, in tests crude has flowed successfully from wells. The Company's management will continue to work towards bringing on crude production soon.

On the natural products side, in August 2006, to better focus our resources on the China lottery related, oil mining 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 welfare lottery related space in China gives us a solid foundation upon which to build and expand into this exciting new business segment.

The short term objective of the Group is to bring on commercial production at Xin Jiang Oilfield and expand the operating scale of Hunan Joint Ventures. Commercial production at Xin Jiang Oilfield is planned to commence within this fiscal year enabling the Group to capitalize on the current strong demand and pricing environment for crude thereby enhancing our profitability and operational cash flow. As the Hunan Joint Ventures have already commenced commercial operation, it is the management's target to expand the operating scale of the Hunan Joint Ventures to take advantage of fast growing industrial and residential demand in Hunan Province of the PRC.

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 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 AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OF ANY ASSOCIATED CORPORATION

As at 31 March 2007, 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 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, were as follows:

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

| Name of Directors | Company/Name of associated corporation | Interest in controlled corporation | Number of shares held |                              |                | Approximate percentage of shareholding |
|-------------------|--|------------------------------------|-----------------------|------------------------------|----------------|--|
|                   |  |                                    | Beneficial owner      | Family interest              | Total interest |  |
| Cheung Kwai Lan   | Company                                | 361,695,000<br>(Note 1)            | 2,070,000<br>(Note 2) | –                            | 363,765,000    | 38.86%                                 |
| Chan Tung Mei     | Company                                | –                                  | –                     | 363,765,000<br>(Notes 1 & 2) | 363,765,000    | 38.86%                                 |
| Lau Hin Kun       | Company                                | –                                  | 575,000               | –                            | 575,000        | 0.06%                                  |
| Cheung Kwai Lan   | Best Frontier Investments Limited      | –                                  | 909                   | 1<br>(Note 3)                | 910            | –                                      |
| Chan Tung Mei     | Best Frontier Investments Limited      | –                                  | 1                     | 909<br>(Note 3)              | 910            | –                                      |
| Cheung Kwai Lan   | Aptus Holdings Limited                 | 971,746,428<br>(Note 4)            | –                     | –                            | 971,746,428    | 57.71%                                 |
| Chan Tung Mei     | Aptus Holdings Limited                 | –                                  | –                     | 971,746,428<br>(Note 4)      | 971,746,428    | 57.71%                                 |

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*Notes:*

1. The 361,695,000 Shares are owned by Best Frontier Investments Limited ("Best Frontier") which is owned as to 99.89% and 0.11% by respectively 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 363,765,000 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 under the SFO. As at 31 March 2007, Best Frontier is interested in approximately 38.64% 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.

## 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 Shares.

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

| <b>Name of Director</b> | <b>Capacity</b>  | <b>Date of grant</b> | <b>Number of options and number of Shares entitled pursuant to full exercise of the options held as at 31 March 2007</b> |
|-------------------------|------------------|----------------------|--|
| Cheung Kwai Lan         | Beneficial owner | 23/11/2006           | 6,240,000  |
| Chan Tung Mei           | Beneficial owner | 23/11/2006           | 6,240,000  |
| Chan Ting               | Beneficial owner | 23/11/2006           | 6,240,000  |
| Lau Hin Kun             | Beneficial owner | 18/8/2004            | 1,600,000  |
|                         | Beneficial owner | 23/11/2006           | 1,400,000  |
| Tian He Nian            | Beneficial owner | 23/11/2006           | 1,050,000  |
| Zhao Zhi Ming           | Beneficial owner | 23/11/2006           | 1,050,000  |
| To Yan Ming, Edmond     | Beneficial owner | 23/11/2006           | 1,050,000  |

The executive directors, Cheung Kwai Lan, Chan Tung Mei and Chan Ting have indicated to the Company that they will not exercise their share options from the date of this report to 31 December 2007.

## Long positions in underlying Shares

By an announcement dated 29 September 2006, the Board announced, among other matters, that it had resolved to propose to issue Warrants to qualifying Shareholders on the basis of one Warrant for every five then existing Shares. The Warrants are exercisable at an initial exercise price of HK\$1.33 per Share for a subscription period of two years, i.e. up to and including 2 November 2008. The Warrants were issued to the qualifying Shareholders on 1 November 2006. Each Warrant entitles the holder thereof to subscribe for one Share. For further details, please refer to the circular of the Company dated 6 October 2006.

| <b>Name of Directors</b> | <b>Capacity</b>  | <b>Number of Warrants<br/>and number of<br/>Shares entitled<br/>pursuant to the<br/>full exercise of the<br/>Warrants held as at<br/>31 March 2007</b> |
|--------------------------|------------------|--|
| Cheung Kwai Lan          | Beneficial owner | 276,000  |
| Lau Hin Kun              | Beneficial owner | 90,000   |

Save as disclosed herein, as at 31 March 2007, 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 associated corporations (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 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 31 March 2007, 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 executive 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 Investments Limited | Beneficial owner                   | 361,695,000<br>(Note 1) | –              | 38.64%                                 |
| Oppenheimer Funds, Inc.           | Investment manager                 | 165,000,000             | –              | 17.63%                                 |
| Haven Associates Limited          | Interest in controlled corporation | 69,900,000<br>(Note 2)  | –              | 7.47%                                  |
| Shaw Kyle Arnold Junior           | Interest in controlled corporation | 69,900,000<br>(Note 2)  | –              | 7.47%                                  |

#### Notes:

- The 361,695,000 Shares are owned by Best Frontier Investments Limited which is owned as to 99.89% and 0.11% respectively by Madam Cheung Kwai Lan and Mr. Chan Tung Mei who are spouse to each other.
- The 69,900,000 Shares represent:
  - 1,545,000 Shares beneficially owned by Shaw, Kwei & Partners (Asia) Ltd.



- (b) 36,930,000 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.) is deemed under the SFO to have interest in the same 36,930,000 Shares.
- (c) 31,425,000 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 31,425,000 Shares.
- (d) Haven Associates Limited, a company controlled by Mr. Shaw Kyle Arnold Junior, a former Director who had been retired from his office after the conclusion of the Company's annual general meeting held on 24 October 2006, is the controlling shareholder of Shaw, Kwei & Partners (Asia) Ltd. and SKP Capital Limited.

## (2) Share options of the Company

| Name of Shareholder     | Date of grant | Number of options<br>and number of<br>Shares entitled<br>pursuant to<br>full exercise of the<br>options held as at<br>31 March 2007 |
|-------------------------|---------------|---|
| Shaw Kyle Arnold Junior | 19/10/2004    | 1,200,000 ( <i>Note</i> )   |

*Note:*

The share options of the Company were granted to Mr. Shaw Kyle Arnold Junior when he was a non-executive Director. Mr. Shaw Kyle Arnold Junior has retired from his office on 24 October 2006 and those share options will lapse in six months time from 24 October 2006, the date on which he retired from his office, if not exercised under the Share Option Scheme.

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

| <b>Name<br/>of Shareholders</b>      | <b>Capacity</b>   | <b>Number of Warrants<br/>and number of<br/>Shares entitled<br/>pursuant to the<br/>full exercise of the<br/>Warrants held as at<br/>31 March 2007</b> |
|--------------------------------------|---|--|
| Best Frontier<br>Investments Limited | Beneficial owner ( <i>Note 1</i> )                      | 48,226,000   |
| Oppenheimer Funds, Inc.              | Investment manager                                      | 22,000,000   |
| Haven Associates<br>Limited          | Interest in controlled corporation<br>( <i>Note 2</i> ) | 9,320,000  |
| Shaw Kyle Arnold<br>Junior           | Interest in controlled corporation<br>( <i>Note 2</i> ) | 9,320,000  |

*Notes:*

1. The 48,226,000 Warrants 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 respectively.
2. The 9,320,000 Warrants represent:
  - (a) 206,000 Warrants beneficially owned by Shaw, Kwei & Partners (Asia) Ltd.
  - (b) 4,924,000 Warrants 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.) is deemed under the SFO to have interest in 4,924,000 Warrants.
  - (c) 4,190,000 Warrants 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 4,190,000 Warrants.
  - (d) Haven Associates Limited, a company controlled by Mr. Shaw Kyle Arnold Junior, a former Director who had been retired from his office after the conclusion of the Company's annual general meeting held on 24 October 2006, is the controlling shareholder of Shaw, Kwei & Partners (Asia) Ltd. and SKP Capital Limited.

Save as disclosed above, as at 31 March 2007, the Directors or chief executive 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.

## **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 results for the nine months ended 31 March 2007 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 nine months ended 31 March 2007, 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. Chan Ting and Mr. Lau Hin Kun and the independent non-executive Directors are Mr. Tian He Nian, Mr. Zhao Zhi Ming and Mr. To Yan Ming, Edmond.*

Hong Kong, 15 May 2007