



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 2006/2007



* for identification purposes only

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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 condensed consolidated results of the Company and its subsidiaries (together the “Group”) for the three months and six months ended 31 December 2006, together with the comparative unaudited figures for the corresponding period in 2005, are as follows:

	Notes	(Unaudited) Three months ended 31 December		(Unaudited) Six months ended 31 December	
		2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Continuing operations					
Revenue	2	12,442	8,032	34,427	13,696
Cost of sales		(3,804)	(7,938)	(23,332)	(12,796)
Gross profit		8,638	94	11,095	900
Other revenue		1,004	261	1,622	465
Selling and distribution costs		(370)	(1,425)	(1,441)	(3,394)
Administrative expenses		(45,809)	(4,359)	(84,533)	(6,530)
Loss from continuing operations	4	(36,537)	(5,429)	(73,257)	(8,559)
Finance costs		(3,511)	(523)	(4,113)	(1,143)
Share of results of associated company		-	5,283	-	6,484
Loss before income tax		(40,048)	(669)	(77,370)	(3,218)
Income tax expenses	5	(393)	(1,261)	(393)	(1,651)
Loss for the period from continuing operations		(40,441)	(1,930)	(77,763)	(4,869)
Discontinued operations					
Profit for the period from discontinued operations	8	-	6,622	29,342	14,436
(Loss)/profit for the period		(40,441)	4,692	(48,421)	9,567
Attributable to:					
Shareholders of the Company		(30,447)	6,239	(26,924)	12,090
Minority interests		(9,994)	(1,547)	(21,497)	(2,523)
		(40,441)	4,692	(48,421)	9,567
Dividend per share		-	0.5 cent	-	0.5 cent
(Loss)/earnings per share	7				
From continuing and discontinued operations:					
Basic		(3.25) cents	0.79 cent	(2.88) cents	1.52 cents
Diluted		(3.19) cents	0.77 cent	(2.80) cents	1.49 cents
From continuing operations:					
Basic		(3.25) cents	(0.05) cent	(6.01) cents	(0.30) cent
Diluted		(3.19) cents	(0.05) cent	(5.84) cents	(0.29) cent

CONDENSED CONSOLIDATED BALANCE SHEET*As at 31 December 2006*

		(Unaudited) 31 December 2006	(Audited) 30 June 2006
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		55,268	17,588
Other intangible assets		5,863	6,586
Interest in associates		238	238
Goodwill		231,235	135,061
Deposits for investment in associates		210,277	–
Deposits made on acquisition of property, plant and equipment		–	3,756
		502,881	163,229
Current assets			
Inventories		10,232	7,436
Trade and other receivables and prepayments	9	98,675	90,458
Pledged bank deposits		5,000	13,308
Bank balances and cash		147,435	244,983
		261,342	356,185
Current liabilities			
Trade and other payables	10	45,700	30,459
Tax liabilities		410	99
Borrowings – due within one year		29,640	12,505
		75,750	43,063
Net current assets		185,592	313,122
Total assets less current liabilities		688,473	476,351
Non-current liabilities			
Borrowings		–	22,500
Convertible bonds	11	226,239	–
Net assets		462,234	453,851
Capital and reserves			
Share capital	13	9,361	6,241
Reserves		429,629	391,717
Equity attributable to equity holders of the Company		438,990	397,958
Minority interests		23,244	55,893
Total equity		462,234	453,851

CONDENSED CONSOLIDATED CASH FLOW STATEMENT – UNAUDITED*For the six months ended 31 December 2006*

	(Unaudited)	
	Six months ended	
	31 December	
	2006	2005
	HK\$'000	HK\$'000
Net cash (outflow)/inflow from operating activities	(12,208)	10,396
Net cash (outflow)/inflow from investing activities	(310,527)	9,831
Net cash inflow from financing activities	224,379	2,361
Net (decrease)/increase in cash and cash equivalents	(98,356)	22,588
Effect of foreign exchange rates change	808	1,007
Cash and cash equivalents at beginning of period	244,983	105,597
Cash and cash equivalents at end of period	147,435	129,192

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

For the six months ended 31 December 2006

	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	Share capital	Share premium	Employee Share-based compensation reserve	Share options reserve	Equity component of convertible bonds	Translation reserve	Special reserve	Retained profit/ (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
At 1 July 2006	6,241	290,004	35,572	39,399	-	1,935	(1)	24,808	55,893	453,851
Issue of bonus shares	3,120	(3,120)	-	-	-	-	-	-	-	-
Exchange differences arising from translation of financial statements of overseas operation	-	-	-	-	-	803	-	-	-	803
Issue of convertible bonds	-	-	-	-	10,712	-	-	-	-	10,712
Recognition of equity-settled share based payments	-	-	-	56,441	-	-	-	-	-	56,441
Disposal of minority interest	-	-	-	-	-	-	-	-	(4,815)	(4,815)
Dividend paid to minority interest	-	-	-	-	-	-	-	-	(6,337)	(6,337)
Net loss for the period	-	-	-	-	-	-	-	(26,924)	(21,497)	(48,421)
At 31 December 2006	9,361	286,884	35,572	95,840	10,712	2,738	(1)	(2,116)	23,244	462,234

	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Retained profit and proposed dividend <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance as at 1 July 2005	4,821	80,825	–	(1)	74,997	10,129	170,771
Exchange differences arising from translation of financial statements of overseas operation	–	–	1,007	–	–	–	1,007
Contribution from minority interests	–	–	–	–	–	17,872	17,872
Net profit/(loss) for the period	–	–	–	–	12,090	(2,523)	9,567
Final dividend paid for the year ended 30 June 2005	–	–	–	–	(7,232)	–	(7,232)
Balance as at 31 December 2005	4,821	80,825	1,007	(1)	79,855	25,478	191,985

Notes:

1. Basis of preparation and accounting policies

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

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

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

2. Revenue

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

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

3. Segment information

a. Business segments

	(Unaudited)					Discontinued operation		Total HK\$'000
	Six months ended 31 December 2006							
	Continuing operation							
	Distribution of natural supplementary products HK\$'000	Provision of lottery- related hardware and software systems HK\$'000	Sales and distribution of edible oil HK\$'000	Mining operation of Xin Jiang Oilfield HK\$'000	Other activities HK\$'000	Sub-total HK\$'000	Manufacturing and distribution of honey mead HK\$'000	
Revenue	1,431	14,433	17,431	-	1,132	34,427	929	35,356
Segment results	1,329	5,111	98	(396)	(586)	5,556	422	5,978
Unallocated income						339	-	339
Unallocated expenses						(79,152)	-	(79,152)
Finance costs						(4,113)	(11)	(4,124)
Gain on disposal of manufacturing and distribution of honey mead operation						-	28,962	28,962
Profit/(loss) before income tax						(77,370)	29,373	(47,997)
Income tax expenses						(393)	(31)	(424)
Profit/(loss) for the period						(77,763)	29,342	(48,421)

(Unaudited)					
Six months ended 31 December 2005					
	Continuing operation			Discontinued operation	
	Distribution of natural supplementary products <i>HK\$'000</i>	Sales and distribution of edible oil <i>HK\$'000</i>	Sub- total <i>HK\$'000</i>	Manufacturing and distribution of honey mead <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue	919	12,777	13,696	30,365	44,061
Segment results	(692)	(83)	(775)	15,657	14,882
Unallocated income			44	26	70
Unallocated expenses			(7,828)	–	(7,828)
Share of results of associates			6,484	–	6,484
Finance costs			(1,143)	(197)	(1,340)
Profit/(loss) before income tax			(3,218)	15,486	12,268
Income tax expenses			(1,651)	(1,050)	(2,701)
Profit/(loss) for the period			(4,869)	14,436	9,567

b. Geographical market segments

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

	(Unaudited)					
	Six months ended 31 December					
			Elimination		Consolidated	
	2006	2005	2006	2005	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Geographical market						
Segment revenue:						
Continued operations						
PRC	14,435	–	–	–	14,435	–
Hong Kong	1,431	896	–	–	1,431	896
South East Asia	16,761	12,777	–	–	16,761	12,777
Europe	670	–	–	–	670	–
Macau	1,130	–	–	–	1,130	–
Sub-total	34,427	13,673	–	–	34,427	13,673
Discontinued operations						
PRC	1,416	43,815	(487)	(13,427)	929	30,388
Total	35,843	57,488	(487)	(13,427)	35,356	44,061
Segment results:						
Continued operations						
PRC					4,475	15,683
Hong Kong					1,330	(692)
South East Asia					72	426
Europe					3	–
Macau					(346)	–
Discontinued operation						
PRC					421	–
Unallocated income					339	107
Unallocated expenses					(79,129)	(8,400)
Finance costs					(4,124)	(1,340)
Share of results of associates					–	6,484
Gain on disposal of manufacturing and distribution of honey mead operation					28,962	–
(Loss)/profit before income tax					(47,997)	12,268
Income tax expenses					(424)	(2,701)
(Loss)/profit for the period					(48,421)	9,567

4. Loss from operations

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

	(Unaudited) Six months ended 31 December	
	2006	2005
	HK\$'000	HK\$'000
Amortisation of technical know-how	887	–
Depreciation of property, plant and equipment	1,479	276
Interest on borrowings	1,173	1,340
Interest on convertible bonds	2,951	–
Interest income	(1,203)	(352)

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 during the period (2005: 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 2006 (three months and six months ended 31 December 2005: HK0.5 cent per share).

7. (Loss)/earnings per share

From continuing and discontinued operations

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

(Loss)/earnings

	(Unaudited) Three months ended 31 December		(Unaudited) Six months ended 31 December	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(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)	(30,447)	6,239	(26,924)	12,090

Number of shares

	(Unaudited)		(Unaudited)	
	Three months ended		Six months ended	
	31 December		31 December	
	2006	2005	2006	2005
	'000	'000	'000	'000
Weighted average number of ordinary shares for the purposes of basic (loss)/earnings per share	936,079	794,157	936,079	794,157
Effect of dilutive potential ordinary shares:				
Share options	17,150	20,384	26,923	17,189
Weighted average number of ordinary shares for the purposes of diluted (loss)/earnings per share	953,229	814,541	963,002	811,346

From continuing operations

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

Loss figures are calculated as follows:

	(Unaudited)		(Unaudited)	
	Three months ended		Six months ended	
	31 December		31 December	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Loss)/profit for the period attributable to equity holders of the Company	(30,447)	6,239	(26,924)	12,090
Less:				
Profit for the period from discontinued operations	–	6,622	29,342	14,436
Loss for the purposes of basic and diluted loss per share from continuing operations	(30,447)	(383)	(56,266)	(2,346)

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

From discontinued operations

Basic earnings per share for the discontinued operations is nil cent per share and 3.13 cents per share respectively for the three months and six months ended 31 December 2006 (three months and six months ended 31 December 2005: 0.83 cent per share and 1.82 cents per share respectively) and diluted earnings per share for the discontinued operations is nil cent per share and 3.05 cents per share respectively for the three months and six months ended 31 December 2006 (three months and six months ended 31 December 2005: 0.81 cent per share and 1.78 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 six months ended 31 December 2006 (three months and six months ended 31 December 2005: HK\$6,622,000 and HK\$14,436,000 respectively) and the denominators detailed above for both basic and diluted earnings per share.

8. Disposal of interests in subsidiaries*Discontinued operations*

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

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

	(Unaudited)		(Unaudited)	
	Three months ended		Six months ended	
	31 December		31 December	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Manufacturing and distribution of honey mead	–	6,622	380	14,436
Gain on disposal of interests in subsidiaries	–	–	28,962	–
	–	6,622	29,342	14,436

The results of the manufacturing and distribution of honey mead for the three months and six months ended 31 December 2006 were as follows:

	(Unaudited)		(Unaudited)	
	Three months ended		Six months ended	
	31 December		31 December	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	–	14,553	929	30,365
Cost of sales	–	(7,022)	(473)	(13,648)
Gross profit	–	7,531	456	16,717
Other revenue	–	–	–	26
Selling and distribution costs	–	(104)	(21)	(665)
Administrative expenses	–	(177)	(13)	(395)
Finance costs	–	(91)	(11)	(197)
Profit before income tax	–	7,159	411	15,486
Income tax expenses	–	(537)	(31)	(1,050)
Profit for the period	–	6,622	380	14,436

The net assets of the subsidiaries disposed of at the date of disposal were as follows:

	<i>HK\$'000</i>
Net assets disposed of	47,038
Gain on disposal	28,962
Total net consideration	76,000
Satisfied by:	
Net cash consideration	76,000
Net cash inflow arising on disposal:	
Net cash consideration	76,000
Bank balances and cash disposal of	(48,429)
	27,571

The subsidiaries disposed of during the period generated approximately HK\$422,000 in the Group's operating activities, generated HK\$nil from the investing activities and used approximately HK\$11,000 in the financing activities.

9. Trade receivables

Payment terms with customers are mainly on credit together with deposits. Invoices are normally payable within 90 days of issuance.

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

	(Unaudited) 31 December 2006 <i>HK\$'000</i>	(Audited) 30 June 2006 <i>HK\$'000</i>
0 to 30 days	4,168	1,241
31 to 60 days	3	96
61 to 365 days	434	3,804
Over 1 year	875	619
	5,480	5,760

10. Trade payables

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

	(Unaudited) 31 December 2006 <i>HK\$'000</i>	(Audited) 30 June 2006 <i>HK\$'000</i>
0 to 30 days	10,876	1,150
31 to 120 days	–	87
Over 1 year	–	113
	10,876	1,350

11. Convertible bonds

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. ("Changde Joint Venture"), 33% equity interest in the Hunan Huayou Natural Gas Transportation & Distribution Company Limited ("Hunan Joint Venture") and general working purposes.

On or at any time after 21 November 2008 and prior to 11 November 2011, Aptus may redeem the convertible bonds in whole but not in part, together with the interest accrued to the redemption date.

The holder(s) of the convertible bonds may exercise the right at any time from 1 January 2007 up to close of business on 11 November 2011 or, if the convertible bonds shall have been called for redemption before 21 November 2011, up to the close of business on a date no later than 7 business days prior to the date fixed for redemption thereof. The initial conversion price will be HK\$2.4 per Aptus share, subject to adjustment upon occurrence of certain prescribed dilution events.

On each of 21 November 2008, 21 November 2009 and 21 November 2010 (each a "Put Option Date"), each bondholder will have the right to require Aptus to redeem in whole or in part the convertible bonds of such bond holder on the Put Option Date together with interest accrued to the Put Option Date.

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.

Further details of the convertible bonds can also be found in the joint announcement made by the Company and Aptus dated 9 November 2006.

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:

	(Unaudited) 31 December 2006 HK\$'000	(Audited) 30 June 2006 HK\$'000
Nominal value of convertible bonds issued	234,000	–
Equity component	(10,712)	–
Liability component at the issuance date	223,288	–
Imputed finance cost	2,951	–
Non-current liability component as at the balance sheet date	226,239	–

12. Very substantial acquisition

These transactions for acquisition of 48.33% equity interest in Changde Joint Venture and of 33% equity interest in Hunan Joint Venture have been approved by the Company's and Aptus' shareholders in the extraordinary general meetings held on 7 November 2006.

Subsequent to the balance sheet date, the Group has obtained certificates of approval for Aptus' investment in Changde Joint Venture and Hunan Joint Venture and updated business licenses of these two Joint Ventures.

13. Share capital*Shares*

	(Unaudited)	(Audited)
	31 December	30 June
	2006	2006
	HK\$'000	HK\$'000
<i>Authorised:</i>		
20,000,000,000 (30 June 2006: 20,000,000,000)		
ordinary shares of HK\$0.01 each	200,000	200,000
<i>Issued and fully paid:</i>		
936,079,000 (30 June 2006: 624,053,000)		
ordinary shares of HK\$0.01 each	9,361	6,241

A bonus issue of shares to those shareholders whose names appeared in the register of members of the Company on 24 October 2006 was made by capitalisation of the share premium account, on the basis of one new share of HK\$0.01 each for two existing shares then held. A total of 312,026,403 bonus shares were issued.

Share options

The Company operates the Pre-IPO Share Option Scheme and Share Option Scheme, details of the share option schemes 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 2006, the Company had no outstanding pre-IPO share options and had outstanding share options entitling the holders to subscribe for 142,410,000 shares in the Company respectively.

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. No warrant was exercised during the period and exercise in full of these warrants would result in the issue of 124,810,561 additional shares of HK\$0.01 each.

14. Pledge of assets

At 31 December 2006, the Group has pledged its bank deposits of approximately HK\$5,000,000 (30 June 2006: HK\$13,308,000) and leasehold property at cost of approximately HK\$7,110,000 (30 June 2006: HK\$6,927,000) to banks to secure the general banking facilities granted to the Group.

As at 31 December 2006 and up to the date of this interim report issued, the 100% of the issued share capital of Good United Management Limited ("GUM"), a wholly-owned subsidiary of the Company's non wholly-owned subsidiary, Aptus Holdings Limited ("Aptus"), was pledged in favour of the holder(s) of the convertible bonds issued by Aptus on 22 November 2006. GUM held 70% equity interests in CNPC Huayou Cu Energy Investment Co., Limited, which owned profit sharing rights on Xin Jiang Oilfield.

15. Operating leases commitments

At 31 December 2006, the Group was committed to make the following future minimum lease payments under non-cancellable operating leases which fall due as follows:

	(Unaudited) 31 December 2006 <i>HK\$'000</i>	(Audited) 30 June 2006 <i>HK\$'000</i>
Within one year	1,663	1,824
In the second to fifth year inclusive	1,982	41
	3,645	1,865

16. Capital commitments

At 31 December 2006, the Group had the following capital commitments:

	(Unaudited) 31 December 2006 <i>HK\$'000</i>	(Audited) 30 June 2006 <i>HK\$'000</i>
Capital expenditure in respect of the acquisition of property, plant and equipment – contracted for but not provided in the financial statements	–	559
	–	559
Capital expenditure in respect of the acquisition of associated companies – authorized but not contracted for	38,901	37,768
Total	38,901	38,327

17. 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 six months ended 31 December 2006, the Group's unaudited consolidated revenue from continuing operations and net loss/profit attributable to shareholders were approximately HK\$34,427,000 (2005: HK\$13,696,000) and HK\$26,924,000 (loss) (2005: HK\$12,090,000 (profit)) respectively. There was an approximate 151% increase in revenue with an approximate 323% decrease in net profit attributable to shareholders over the corresponding period of last year. Gross profit ratio was approximately 32.2% for the six months period under review (2005: 6.57%).

The increase in revenue was due to the increase of sales of edible oil, which resulted from lower selling prices which were reduced to stimulate the sales. In addition, there are revenue of approximately HK\$14,433,000 from the segment of provision of lottery-related hardware and software system whereas there was none in the corresponding period. During the period under review, there was approximately HK\$56,441,000 in share option expenses charged to the profit and loss and there was approximately HK\$28,962,000 in gains on disposal of certain subsidiaries.

The Group will have to further absorb approximately HK\$6,247,000 share option expense up to October 2007 which are non-recurring expenses.

Financial resources and liquidity

As at 31 December 2006, the Group enjoyed a healthy financial position, with cash and bank balance of approximately HK\$152,435,000 (30 June 2006: HK\$258,291,000). Net asset value per share was approximately HK\$0.49 (30 June 2006: approximately HK\$0.48 (restated due to issue of bonus shares)), and current assets stood at HK\$261,342,000 (30 June 2006: HK\$356,185,000). The gearing ratio was 65.3% as at 31 December 2006 (30 June 2006: 14.4%). Gearing ratio is calculated as total liabilities divided by total equity. The increase of gearing ratio is due to the issue of convertible bonds during the period.

The Group's sales and purchases are transacted mainly in Renminbi, Hong Kong Dollars, Singaporean Dollars and US Dollars and the books are recorded in Hong Kong dollars. The exchange rate fluctuation between these currencies have not been material. The foreign exchange risk was very low and no hedging was undertaken.

Capital structure

During the six months ended 31 December 2006, there was a total number of 312,026,403 bonus shares and 124,810,561 bonus warrants issued on the basis of one bonus share for every two then existing shares held on 24 October 2006 and one bonus warrant for every five then existing shares held on 24 October 2006.

Charges on the Group assets

As 31 December 2006, the Group has pledged its bank deposits of approximately HK\$5,000,000 (30 June 2006: HK\$13,308,000) and leasehold property at cost of approximately HK\$7,110,000 (30 June 2006: HK\$6,927,000) to banks to secure the general banking facilities granted to the Group.

As at 31 December 2006 and up to the date of this interim report issued, the 100% of the issued share capital of Good United Management Limited (“GUM”), a wholly-owned subsidiary of the Company’s non wholly-owned subsidiary, Aptus Holdings Limited (“Aptus”), was pledged in favour of the holder(s) of the convertible bonds issued by Aptus on 22 November 2006. GUM held 70% equity interests in CNPC Huayou Cu Energy Investment Co., Limited, which owned profit sharing rights on Xin Jiang Oilfield.

Contingent liabilities

The Group did not have any contingent liabilities as at 31 December 2006 (30 June 2006: Nil).

Commitments

The Group had capital commitments of approximately HK\$38,901,000 and operating leases commitment of approximately HK\$3,645,000 as at 31 December 2006 (30 June 2006: HK\$38,327,000 and HK\$1,865,000 respectively).

Significant investments and acquisitions

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

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

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

During the six months ended 31 December 2006, the Group disposed 55% equity interest of Wuhu Bee & Bee Natural Food Company Limited and 100% equity interest of Zhuhai Free Trade Zone Bee & Bee Natural Food Company Limited to an independent third party at a price of HK\$76,000,000 in cash.

Employees

The Group employed 151 employees as at 31 December 2006. 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 benefits and training programs.

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 maiden contribution to the Group's revenues and net profits in the final quarter of financial year 2005/2006. Bozone continues to contribute and the Group has been working with the former on expanding its service offerings from just software and technical related services to include hardware, marketing and promotion and assistance in POS management services as well as expanding its operations geographically. 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 regard Aptus, operationally, the results continue to predominantly reflect the trading of edible oil products as, while drilling at the Group's Xin Jiang Oilfield is progressing, commercial production of crude has yet to commence. With regard the edible operations, revenue was up significantly but edible oil gross profits decreased, and no revenue was generated by the Group in the second quarter of fiscal 2007 due to continuing difficult business conditions.

On the oil side, we have been working hard with China Hua You Group Corporation ("Hua You"), a wholly-owned subsidiary of China National Petroleum Corporation (CNPC), to bring onstream production at the Xin Jiang Oilfield, an oilfield development project in Feng Cheng, Xin Jiang in the PRC in which Aptus Holdings Limited has a 70% stake. As at the time of writing this interim report, a total of circa 60 wells have now been drilled. Aptus' management will continue to work towards bringing on oil production soon.

In July 2006, Aptus entered into two agreements to make capital contributions to Changde Huayou Gas Co. Limited ("Changde Joint Venture") (a city level natural gas pipeline project) and Hunan Huayou Natural Gas Transportation & Distribution Company Limited ("Hunan Joint Venture") (a provincial level natural gas pipeline project). The major shareholder in both these ventures is Hua You. In the China Vanguard and Aptus extraordinary general meetings which were both held on 7 November 2006, shareholders of both companies voted in favor of the capital contributions. On 9 November, Aptus announced a convertible bond issue of circa US\$30 million (equivalent to HK\$234 million) to finance the capital contributions. Subsequent to the balance sheet date, the Group has obtained certificates of approval for Aptus' investment in Changde Joint Venture and Hunan Joint Venture and updated business licenses of these two Joint Ventures.

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.

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

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 December 2006, 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 (Note 1)	2,070,000 (Note 2)	–	363,765,000	38.86%
Chan Tung Mei	Company	–	–	363,765,000 (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 (Note 3)	910	–
Chan Tung Mei	Best Frontier Investments Limited	–	1	909 (Note 3)	910	–
Cheung Kwai Lan	Aptus Holdings Limited	971,746,428 (Note 4)	–	–	971,746,428	58.24%
Chan Tung Mei	Aptus Holdings Limited	–	–	971,746,428 (Note 4)	971,746,428	58.24%

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 December 2006, 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, the company directly holding 971,746,428 Aptus Shares of which, up to 48,750,000 Aptus Shares may be 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.

Name of Director	Capacity	Date of grant	Number of options and number of Shares entitled pursuant to full exercise of the options held as at 31 December 2006
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.

Name of Directors	Capacity	Number of Warrants and number of Shares entitled pursuant to the full exercise of the Warrants held as at 31 December 2006
Cheung Kwai Lan	Beneficial owner	276,000
Lau Hin Kun	Beneficial owner	90,000

Save as disclosed herein, as at 31 December 2006, none of the Directors or chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any 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 December 2006, 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 (Note 1)	–	38.64%
Oppenheimer Funds, Inc.	Investment manager	165,000,000	–	17.63%
Haven Associates Limited	Interest in controlled corporation	69,900,000 (Note 2)	–	7.47%
Shaw Kyle Arnold Junior	Interest in controlled corporation	69,900,000 (Note 2)	–	7.47%

Notes:

1. 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.

2. The 69,900,000 Shares represent:
 - (a) 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 and number of Shares entitled pursuant to full exercise of the options held as at 31 December 2006
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

Name of Shareholders	Capacity	Number of Warrants and number of Shares entitled pursuant to the full exercise of the Warrants held as at 31 December 2006
Best Frontier Investments Limited	Beneficial owner (<i>Note 1</i>)	48,226,000
Oppenheimer Funds, Inc.	Investment manager	22,000,000
Haven Associates Limited	Interest in controlled corporation (<i>Note 2</i>)	9,320,000
Shaw Kyle Arnold Junior	Interest in controlled corporation (<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 December 2006, 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.

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 2006.

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

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 six months ended 31 December 2006 have been reviewed by the audit committee which was of the opinion that the preparation of such results complied with applicable accounting standards and requirements and that adequate disclosures had been made.

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

During the six months ended 31 December 2006, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

By order of the Board

CHAN Ting

Director

As at the date of this report, the executive Directors are Madam Cheung Kwai Lan, Mr. Chan Tung Mei, Mr. 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, 14 February 2007