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)

ANNUAL RESULTS 2006

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcement in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM listed issuers.

This announcement, 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 announcement 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 announcement misleading; and 3. all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* *For identification purposes only*

The Board of Directors (the "Board") of China Vanguard Group Limited (the "Company") is pleased to present the audited consolidated results of the Company and its subsidiaries (together the "Group") for the year ended 30 June 2006, together with comparative figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 30 June 2006

	Notes	**2006** **HK$'000**	2005 *HK$'000*
Revenue	*3*	**81,608**	189,131
Cost of sales		**(55,284)**	(142,875)
Gross profit		**26,324**	46,256
Other revenue	*3*	**34,282**	5,112
Selling and distribution costs		**(3,718)**	(12,747)
Administrative expenses		**(111,252)**	(18,884)
Gain on disposal of subsidiaries		**–**	6,945
Loss on disposal of an associate		**(13,106)**	–
Loss on disposal of a jointly controlled entity		**–**	(2,789)
Finance costs	*5*	**(3,005)**	(1,849)
Share of results of associates		**18,830**	17,653
(Loss) profit before income tax	*6*	**(51,645)**	39,697
Income tax expenses	*7*	**(6,717)**	(9,086)
(Loss) profit for the year		**(58,362)**	30,611
Attributable to:			
Equity holders of the Company		**(39,908)**	31,685
Minority interests		**(18,454)**	(1,074)
		(58,362)	30,611
(Loss) earnings per share			
Basic	*9*	**(HK7.47 cents)**	HK6.57 cents
Diluted	*9*	**(HK7.10 cents)**	HK6.53 cents

CONSOLIDATED BALANCE SHEET

At 30 June 2006

	Notes	2006 HK$'000	2005 HK$'000
Non-current assets			
Property, plant and equipment	10	**17,588**	3,329
Other intangible assets		**6,586**	–
Interest in associates	11	**238**	31,081
Goodwill		**135,061**	12,230
Deposits made on acquisition of property, plant and equipment		**3,756**	3,779
		163,229	50,419
Current assets			
Inventories	12	**7,436**	5,738
Trade and other receivables and prepayments	13	**90,458**	24,944
Pledged bank deposits		**13,308**	31,761
Bank balances and cash		**244,983**	135,489
		356,185	197,932
Current liabilities			
Trade and other payables	14	**30,459**	20,602
Tax liabilities		**99**	539
Borrowings – due within one year	15	**12,505**	51,722
		43,063	72,863
Net current assets		**313,122**	125,069
Total assets less current liabilities		**476,351**	175,488
Non-current liabilities			
Borrowings	15	**22,500**	4,717
Net assets		**453,851**	170,771
Capital and reserves			
Share capital		**6,241**	4,821
Reserves		**391,717**	155,821
Equity attributable to equity holders of the Company		**397,958**	160,642
Minority interests		**55,893**	10,129
Total equity		**453,851**	170,771

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2006

	Attributable to equity holders of the Company								
	Share capital *HK$'000*	**Share premium** *HK$'000*	**Employee share-based compensation reserve** *HK$'000*	**Share options reserve** *HK$'000*	**Translation reserve** *HK$'000*	**Special reserve** *HK$'000*	**Retained profits** *HK$'000*	**Minority interests** *HK$'000*	**Total** *HK$'000*
At 1 July 2004, as originally stated	4,813	80,649	–	–	15	(1)	51,990	–	137,466
Effects of changes in accounting policies	–	–	–	–	–	–	–	4,824	4,824
At 1 July 2004, as restated	4,813	80,649	–	–	15	(1)	51,990	4,824	142,290
Exchange differences arising from acquisition and disposal of overseas subsidiaries	–	–	–	–	(22)	–	–	–	(22)
Exchange differences arising from translation of financial statements of Singapore operation	–	–	–	–	7	–	–	–	7
Shares issued on exercise of options	8	176	–	–	–	–	–	–	184
Capital contribution from minority interests	–	–	–	–	–	–	–	266	266
Acquisition and disposal of subsidiaries	–	–	–	–	–	–	–	6,113	6,113
Net profit for the year	–	–	–	–	–	–	31,685	(1,074)	30,611
Dividend paid	–	–	–	–	–	–	(8,678)	–	(8,678)
At 30 June 2005 (restated)	4,821	80,825	–	–	–	(1)	74,997	10,129	170,771
At 1 July 2005, as originally stated	4,821	80,825	–	–	–	(1)	74,997	–	160,642
Effects of changes in accounting policies	–	–	–	–	–	–	–	10,129	10,129

	Attributable to equity holders of the Company								
	Share capital *HK$'000*	Share premium *HK$'000*	Employee share-based compensation reserve *HK$'000*	Share options reserve *HK$'000*	Translation reserve *HK$'000*	Special reserve *HK$'000*	Retained profits *HK$'000*	Minority interests *HK$'000*	Total *HK$'000*
At 1 July 2005, as restated	4,821	80,825	–	–	–	(1)	74,997	10,129	170,771
Acquisition of subsidiaries	–	–	–	–	–	–	–	50,917	50,917
Exchange differences arising from acquisition of subsidiaries	–	–	–	–	1,935	–	–	284	2,219
Capital contribution from minority interests	–	–	–	–	–	–	–	12,791	12,791
Partial disposal of subsidiary	–	–	–	–	–	–	–	226	226
Shares issued on share award scheme	488	–	35,572	–	–	–	–	–	36,060
Placing of shares	680	139,147	–	–	–	–	–	–	139,827
Shares issued pursuant to sale and purchase agreement	241	69,715	–	–	–	–	–	–	69,956
Recognition of equity-settled share based payments	–	–	–	39,399	–	–	–	–	39,399
Shares issued on exercise of options	11	317	–	–	–	–	–	–	328
Net loss for the year	–	–	–	–	–	–	(39,908)	(18,454)	(58,362)
Dividends paid	–	–	–	–	–	–	(10,281)	–	(10,281)
At 30 June 2006	6,241	290,004	35,572	39,399	1,935	(1)	24,808	55,893	453,851

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of presentation

The financial statements are presented in Hong Kong dollars, being the measurement currency of the Company and its subsidiaries (the "Group").

2. Application of Hong Kong Financial Reporting Standards/Changes in Accounting Policies

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented:

HKFRS 3	Business combinations
HKFRS 2	Share-based payment
HKAS 32	Financial instrument: Disclosure and Presentation
HKAS 39	Financial instrument: Recognition and Measurement
HKAS 17	Owner-occupied leasehold interest in land

3. Revenue and other revenue

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

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

Revenue recognized during the year is as follows:

	2006	2005
	HK$'000	*HK$'000*
Revenue		
Manufacture and sales of natural supplementary products	**39,934**	81,101
Provision of lottery-related hardware and software systems	**10,854**	–
Sales and distribution of edible oil	**30,820**	108,030
	81,608	189,131
Other revenue		
Interest income	**1,868**	245
Gain on redemption of convertible notes	**–**	4,319
Gain on partial disposal of subsidiary	**32,349**	–
Others	**65**	548
	34,282	5,112

4. Segment Information

a. *Business segments*

	Year ended 30 June 2006				
	Manufacturing and distribution of natural supplementary products	**Provision of lottery-related hardware and software systems**	**Sales and distribution of edible oil**	**Mining operation of Xin Jiang Oilfield**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Revenue	**39,934**	**10,854**	**30,820**	**–**	**81,608**
Segment results	**2,530**	**1,501**	**(90)**	**(470)**	**3,471**
Unallocated income					**33,000**
Unallocated expenses					**(103,941)**
Share of results of associates					**18,830**
Finance costs					**(3,005)**
Loss before income tax					**(51,645)**
Income tax expenses					**(6,717)**
Loss for the year					**(58,362)**

	Year ended 30 June 2005				
	Manufacturing and distribution of natural supplementary products	Provision of lottery-related hardware and software systems	Sales and distribution of edible oil	Mining operation of Xin Jiang Oilfield	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	81,101	–	108,030	–	189,131
Segment results	24,904	–	(2,865)	–	22,039
Unallocated income					4,038
Unallocated expenses					(2,184)
Share of results of associates					17,653
Finance costs					(1,849)
Profit before income tax					39,697
Income tax expenses					(9,086)
Profit for the year					30,611

	Year ended 30 June 2006				
	Manufacturing and distribution of natural supplementary products	**Provision of lottery-related hardware and software systems**	**Sales and distribution of edible oil**	**Mining operation of Xin Jiang Oilfield**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment assets	**274,964**	**44,458**	**1,298**	**41,912**	**362,632**
Unallocated assets					**156,782**
Total assets					**519,414**
Segment liabilities	**5,374**	**22,919**	**519**	**661**	**29,473**
Unallocated liabilities					**36,090**
Total liabilities					**65,563**
Other segment information:					
Depreciation and amortization	**1,000**	**824**	**–**	**15**	**1,839**
Unallocated depreciation and amortization					**26**
Impairment losses on goodwill	**–**	**–**	**3,361**	**–**	**3,361**
Capital expenditure					**5,513**
Non-cash expenses					**75,459**
Loss on disposal of property, plant and equipment	**387**	**–**	**–**	**–**	**387**

	Year ended 30 June 2005				
	Manufacturing and 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*	Total *HK$'000*
Segment assets	209,267	–	10,517	–	219,784
Unallocated assets					28,567
Total assets					248,351
Segment liabilities	46,397	–	9,656	–	56,053
Unallocated liabilities					21,527
Total liabilities					77,580
Other segment information:					
Depreciation and amortization	796	–	–	–	796
Unallocated depreciation and amortization					588
Capital expenditure					622
Loss on disposal of property, plant and equipment	36	–	–	–	36

b. *Geographical market segments*

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

			Elimination		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Geographical market						
Segment revenue:						
PRC	**66,497**	145,964	**(16,979)**	(33,507)	**49,518**	112,457
Hong Kong	**1,270**	5,938	**–**	–	**1,270**	5,938
South East Asia	**30,204**	61,464	**–**	–	**30,204**	61,464
Europe	**616**	9,272	**–**	–	**616**	9,272
Total	**98,587**	222,638	**(16,979)**	(33,507)	**81,608**	189,131
Segment results:						
PRC					**19,782**	28,116
Hong Kong					**(16,221)**	(3,212)
South East Asia					**(88)**	(2,445)
Europe					**(2)**	(420)
Unallocated income					**33,000**	4,038
Unallocated expenses					**(103,941)**	(2,184)
Finance costs					**(3,005)**	(1,849)
Share of results of associates					**18,830**	17,653
(Loss) profit before income tax					**(51,645)**	39,697
Income tax expenses					**(6,717)**	(9,086)
(Loss) profit for the year					**(58,362)**	30,611

5. Finance costs

	2006	2005
	HK$'000	*HK$'000*
Interest on borrowings wholly repayable within five years	**3,005**	1,849

6. (Loss) profit before income tax

	2006	2005
	HK$'000	*HK$'000*
(Loss) profit before income tax has been arrived at after charging (crediting):		
Staff costs (excluding directors' emoluments – note 11):		
Wages and salaries	**7,538**	4,002
Retirement benefits scheme contributions	**335**	272
Total staff costs	**7,873**	4,274
Less: Staff costs included in research and development costs	**–**	(67)
	7,873	4,207
Auditors' remuneration		
Provision for the year	**630**	453
Under provision in prior years	**–**	25
	630	478
Amortization of goodwill	**–**	1,085
Amortization of other intangible assets	**437**	58
Depreciation of property, plant and equipment	**1,428**	1,384
Provision of deposits made on acquisition of property, plant and equipment	**133**	130
Loss on disposal of jointly controlled entity	**–**	2,789
Operating lease rentals in respect of land and building	**1,699**	794
Research and development costs	**–**	67
Cost of inventories recognized as expenses	**48,641**	142,875
Net foreign exchange losses	**–**	59
Loss on disposal of property, plant and equipment	**387**	36
Loss on disposal of an associate	**13,106**	–
Provision on doubtful debts	**429**	–
Impairment of goodwill	**3,361**	–
Net foreign exchange gains	**(2,110)**	–

7. Income tax expenses

	2006	2005
	HK$'000	*HK$'000*
The charge comprises:		
Current year		
Hong Kong Profits Tax	**–**	–
Other jurisdictions	**1,427**	2,514
Over-provision in prior years:		
Hong Kong Profits Tax	**–**	–
Other jurisdictions	**(127)**	–
Share of taxation charge of an associate	**5,417**	6,572
	6,717	9,086

The Group did not derive any assessable profits in Hong Kong and thus no provision for Hong Kong Profits Tax has been made during the year ended 30 June 2006. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Pursuant to the relevant laws and regulations in the PRC, the Group's certain PRC subsidiaries are entitled to exemption from the PRC income tax for two years commencing from their first profit-making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC income tax for the following three years.

8. Dividends

	2006	2005
	HK$'000	*HK$'000*
Interim dividend paid at HK0.5 cent per share on 609,872,807 shares (2005: HK0.5 cent per share on 482,130,000 shares)	**3,049**	2,411
Proposed final dividend at HKNil cent per share on 624,052,807 shares (2005: HK1.5 cents per share on 482,130,000 shares)	**–**	7,232
	3,049	9,643

9. (Loss) earnings per share

The calculation of basic and diluted (loss) earnings per share is based on the following data:

	2006	2005
	HK$'000	*HK$'000*
(Loss) earnings for the purposes of basic (loss) earnings per share	**(39,908)**	31,685

Number of shares

	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**534,223**	481,915
Effect of dilutive potential ordinary shares:		
Share options	**28,202**	3,354
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	**562,425**	485,269

10. Property, plant and equipment

	Leasehold land and buildings *HK$'000*	Leasehold improvements *HK$'000*	Motor vehicles *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Computer equipment *HK$'000*	Total *HK$'000*
COST							
At 1 July 2004	–	–	932	3,867	430	–	5,229
Additions	–	519	–	–	103	–	622
Acquired on acquisition of subsidiaries	–	–	–	–	1,487	–	1,487
Disposal of subsidiaries	–	–	–	–	(1,487)	–	(1,487)
Disposals	–	–	(75)	(616)	(1)	–	(692)
At 30 June 2005	–	519	857	3,251	532	–	5,159
Exchange realignment	–	–	8	95	6	–	109
Additions	359	1,547	2,502	516	535	54	5,513
Acquired on acquisition of subsidiaries	6,019	–	255	–	603	3,644	10,521
Disposals	–	–	(345)	(523)	–	–	(868)
At 30 June 2006	**6,378**	**2,066**	**3,277**	**3,339**	**1,676**	**3,698**	**20,434**
DEPRECIATION							
At 1 July 2004	–	–	236	1,294	152	–	1,682
Charged for the year	–	187	186	329	682	–	1,384
Eliminated on disposal of subsidiaries	–	–	–	–	(580)	–	(580)
Eliminated on disposals	–	–	(39)	(616)	(1)	–	(656)
At 30 June 2005	–	187	383	1,007	253	–	1,830
Exchange realignment	–	–	3	29	4	–	36
Charged for the year	106	253	318	351	146	254	1,428
Eliminated on disposals	–	–	(260)	(188)	–	–	(448)
At 30 June 2006	**106**	**440**	**444**	**1,199**	**403**	**254**	**2,846**
NET BOOK VALUES							
At 30 June 2006	**6,272**	**1,626**	**2,833**	**2,140**	**1,273**	**3,444**	**17,588**
At 30 June 2005	–	332	474	2,244	279	–	3,329

The leasehold land and buildings of the subsidiary is located in PRC and held under medium lease term. The Group has pledged land and buildings having a net book value of approximately HK$5,918,000 (2005: HK$Nil) to secure general banking facilities granted to the subsidiary.

At 30 June 2006, none of the Group's property, plant and equipment was held under finance lease (2005: HK$Nil).

11. Interest in associates

	2006 *HK$'000*	2005 *HK$'000*
Cost of unlisted investment	**43,125**	20,000
Share of post-acquisition profits	**24,494**	11,081
	67,619	31,081
Disposals during the year	**(67,381)**	–
	238	31,081

12. Inventories

	2006 *HK$'000*	2005 *HK$'000*
Raw materials and consumables	**2,401**	479
Work in progress	**832**	2,045
Finished goods	**4,203**	3,214
	7,436	5,738

All inventories are stated at cost.

13. Trade and other receivables and prepayments

	2006 *HK$'000*	2005 *HK$'000*
Trade receivables	**5,760**	22,155
Other receivables and prepayments	**84,698**	2,789
	90,458	24,944

Payment terms with customers are mainly on credit together with deposits. Invoices are normally payable within 90 days of issuance. The following is an aged analysis of trade receivables at the balance sheet dates:

	2006 *HK$'000*	2005 *HK$'000*
0 to 30 days	**1,241**	18,073
31 to 60 days	**96**	2,288
61 to 365 days	**3,804**	1,792
Over 1 year	**619**	2
	5,760	22,155

Included in other receivables and prepayments are prepayments for the drilling operation of Xin Jiang Oilfield in the PRC of approximately HK$29 million (2005: Nil) and deposits for acquisition of plant and machinery for the Xin Jiang Oilfield of approximately HK$12 million (2005: Nil).

The fair value of the Group's trade and other receivables and prepayments at 30 June 2006 was approximate to the corresponding carrying amount.

14. Trade and other payables

	2006	2005
	HK$'000	*HK$'000*
Trade payables	**1,350**	11,896
Other payables	**29,109**	8,706
	30,459	20,602

The following is an aged analysis of trade payables at the balance sheet dates:

	2006	2005
	HK$'000	*HK$'000*
0 to 30 days	**1,150**	11,235
31 to 120 days	**87**	661
Over 1 year	**113**	–
	1,350	11,896

The fair value of the Group's trade and other payables at 30 June 2006 was approximate to the corresponding carrying amount.

15. Borrowings

	2006	2005
	HK$'000	*HK$'000*
Bank overdrafts, secured	**–**	29,568
Trust receipt loans, secured	**–**	324
Other loan, unsecured *(note a)*	**22,500**	–
Other loan, unsecured *(note b)*	**8,427**	–
Bank loans, secured *(note c)*	**4,078**	26,547
	35,005	56,439

The Group's borrowings are repayable as follows:

	2006	2005
	HK$'000	*HK$'000*
On demand or within one year	**12,505**	51,722
More than one year, but not exceeding two years	**22,500**	4,717
	35,005	56,439
Less: Amount due within one year shown under current liabilities	**(12,505)**	(51,722)
Amount due after one year	**22,500**	4,717

The fair value of the Group's borrowings at 30 June 2006 was approximate to the corresponding carrying amount.

Notes:

(a) The loan is interest bearing at 2% over prime rate and unsecured, and not repayable within the year.

(b) The loan is unsecured, bears interest at prime rate and has no fixed repayment term.

(c) The loans are interest bearing, and secured by leasehold land and buildings and fixed deposits of subsidiaries. The loans have been fully repaid in next financial year.

16. Events after the Balance Sheet Date

On 25 July 2006, the Company's non-wholly owned subsidiary, Aptus Holdings Limited which its shares are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited, entered into two capital injection agreements to invest on 常德華油燃氣有限公司 (the "Changde Joint Venture") and 湖南華油天然氣輸配有限責任公司 (the "Hunan Joint Venture") for the amount of approximately HK$127,872,000 and HK$77,281,000 respectively. Upon completion of the Changde Agreement and the Hunan Agreement, the Company will own 48.33% equity interest in the Changde Joint Venture and 33% equity interest in the Hunan Joint Venture.

The Changde Joint Venture is managing natural gas project in Changde City in the PRC. The Hunan Joint Venture is mainly engaged in the construction of a main gas pipeline. The investments under the Changde Agreement and the Hunan Agreement constitute a very substantial acquisition for Aptus Holdings Limited and a major transaction for the Company under the GEM Listing Rules and therefore, it needs to seek for an approval from its shareholders in the extraordinary general meeting.

Besides, subsequent to the balance sheet date, on 18 August 2006, the Group issued a circular (the "Circular") to the shareholders of the Company in relation to a major transaction. According to the Circular, 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. The Group intends to place the net proceeds from the disposals of subsidiaries in short term deposits with financial institution or licensed banks in Hong Kong. On 4 September 2006, the shareholders approved the disposals of subsidiaries in the extraordinary general meeting.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Significant progress has been made by the Group in developing its presence in the China lottery-related sector and in the oil and gas related industries. The results for the 12 months to 30 June 2006, however, still predominantly reflect the natural products and edible oil trading businesses, as the Group's newly acquired business units have yet to begin contributing significantly. Positively, however, we are pleased to announce that our 51%-owned China lottery-related company, Bozone, has made a maiden contribution to our results. Bozone contributed HK$10.85 million in revenue and HK$1.50 million in segmental results for the period since its completion of acquisition on 22 March 2006.

Overall revenue for the Group, however, was HK$81.61 million against HK$189.13 million previously. The large reduction in revenue was due to poor performance at the Group's edible oil trading operations and at the natural products division due to continuing difficult business conditions. Revenue from sales of edible oil for the period was HK$30.82 million against HK$108.03 million previously and revenue from the manufacturing and distribution of natural products declined to HK$39.93 million from HK$81.10 million previously. As a result, gross profits contracted to HK$26.32 million against HK$46.26 million previously. Overall the Group recorded a net loss attributable to shareholders after minorities of HK$39.91 million for the year ended 30 June 2006 against a net profit of HK$31.69 million for the previous corresponding period.

Most of all the HK$71.60 million swing in net profits can be explained as follows: (i) a HK$19.94 million reduction in gross profit due to difficult operating conditions; (ii) share award expenses of HK$36.06 million; (iii) share option expenses of HK$39.4 million; and (iv) loss on disposal of an associate of HK$13.1 million. Helping offset some of this was HK$32.3 million in gains on the partial disposal of Aptus shares by China Vanguard.

DEVELOPMENT

China lottery-related operations

During the period, CVG management worked hard on developing a presence in the fast growing China lottery-related industry, completing two deals and penning another.

Shenzhen Bozone IT Co. Limited

In March 2006, we completed the acquisition of a 51% stake in Shenzhen Bozone IT Co. Limited ("Bozone"). Bozone is principally engaged in the research and development and application of information technology in the lottery field. This includes application software development and production of large scale online lottery systems and multi-platform wagering systems, integration of online lottery networks, network security system solutions, wagering terminals, operational solutions and operational consultation services. In short, Bozone is a vertically integrated provider of software, hardware and related services focusing on the traditional welfare lottery segment in the PRC. Bozone's business model is to provide these services in return for a share of lottery revenues thus allowing Bozone and CVG to participate in the growth in revenues of the PRC lottery sector.

Guangzhou Latech Computer Technology Company Limited

In June 2006, we completed the formation of joint venture Guangzhou Latech Computer Technology Company Limited ("Guangzhou Latech"). The joint venture is principally engaged in the integration and provision of technical services for computer systems, provision of repairs and maintenance services for lottery and development and sales of computer hardware and software. The joint venture also has the right to sub-contract the manufacture of computers and lottery terminals to third parties. Guangzhou Latech intends to engage in the above businesses (provision of lottery equipment etc) in the sports lottery segment of the China lottery market.

Jinan Weita Technology Company Limited

In March 2006, we announced that we had entered into a contract to acquire a 63% stake in Jinan Weita Technology Company Limited ("Jinan Weita"). The core business of Jinan Weita is the research, development, manufacture and sale of lottery terminals in the PRC. Currently, the company has several lines of cost effective lottery sales terminals, ranging from mini lottery sales terminals to high-end multi-media lottery sales terminals. The lottery sales terminals are sold as an integrated part of the lottery system and can also be sold on an OEM basis on request of customers. The lottery sales terminals have been supplied to Shandong and Hubei provinces and are presently part of the integrated system supporting the lottery operating in the two provinces. Adding Jinan Weita would increase our vertical integration, lower our costs and strengthen our ability to offer integrated lottery solutions in the PRC.

APTUS HOLDINGS LIMITED – OIL AND GAS OPERATIONS

During the period, Aptus management has continued to work hard on developing and expanding its footprint in the oil and gas related industries.

Xin Jiang Oilfield

In January 2006, Aptus completed the acquisition of a 70% equity interest in CNPC Huayou Cu Energy Investment Co. Ltd. giving it an effective 56% in the profit sharing rights of the Xin Jiang Oilfield. The development and operation of the Xin Jiang Oilfield is being managed and executed by Huayou. During the period under review, Aptus management continued to work with Huayou, on development plans for the field. Whilst no wells were completed during fiscal year 2005/06, we are pleased to report that as of the time of this writing, 17 production wells have been drilled.

Two new gas pipeline projects

In July 2006, Aptus entered into two agreements to make capital contributions to Changde Huayou Gas Co., Ltd ("Changde Joint Venture") (a city level natural gas pipeline project) and Hunan Huayou Natural Gas Transportation and Distribution Company Limited ("Hunan Joint Venture") (a provincial level natural gas pipeline project) in return for 48.33% and 33.0% stakes in the two ventures respectively. Natural gas is expected to be flowing through the pipelines of both these two joint ventures by the end of 2006.

The Hunan Joint Venture has constructed and owns a 187km natural gas pipeline which extends from Changsha City to Changde City. This pipeline is a provincial level main gas pipeline and is connected with the Zhongxian-Wuhan pipeline which is a branch from the trunk of the West-East Gas pipeline. The Hunan Joint Venture is to source gas via the pipeline network from natural gas fields operated by the CNPC group. It will then transport this gas along its own Changsha City to Changde City pipeline for distribution to city level gas distribution companies along the length of the pipeline. Meanwhile, the Changde Joint Venture constructs and operates the last mile pipeline distribution network to residential, commercial and industrial customers in Changde City, earning its revenue via the collection of connection fees and sale of gas.

NATURAL PRODUCTS BUSINESS

During the period, we pared down our natural products business. In April 2006, we announced that we had entered into an agreement to sell off our 20.83% stake in Your Mart Co., Limited ("Your Mart"). Your Mart is a joint venture company engaged in the distribution and retail of consumable goods, including clothing, footwear and electronic equipment in Hunan Province. In August 2006, we announced that we entered into a contract 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 manufacture and research and development of mead and the latter is a distributor of mead.

FUTURE OUTLOOK

Via Bozone, CVG offers vertically integrated software, hardware and related services to the traditional welfare lottery segment in the PRC in return for a share of lottery revenues. This allows the Group to participate in the rapid growth in revenues of the PRC lottery sector. It is our objective this year to continue to build out the service offerings of Bozone as well as its geographical footprint in the PRC. The potential acquisition of Jinan Weita would enhance Bozone's ability to provide integrated solutions as well as its cost competitiveness. Meanwhile, the addition of Guangzhou Latech to the fold gives us penetration into the sports lottery segment of the China lottery market. We believe that CVG is positioning itself well to benefit from burgeoning growth in the industry.

At Aptus, we will concentrate on scaling up production at the Xin Jiang Oilfield. Further, we will also focus on completing the capital contribution agreements for the Hunan Joint Venture and the Changde Joint Venture. We believe that development of the Xin Jiang Oilfield will enable the Group to capitalize on the current strong demand and pricing environment for crude thereby enhancing profitability and operational cash flow going forward. Meanwhile, we consider the intended investment in the two aforementioned pipeline projects as providing a good opportunity for the Group to participate in the natural gas business in the PRC which we consider to have substantial growth potential in light of the PRC government's desire to increase the proportion of gas utilization in the country's energy mix. The objective of management is to develop Aptus Holdings Limited into a major diversified oil and gas group and we believe that the acquisition of the Xin Jiang Oilfield and the signing of the two pipeline capital contribution agreements represents a good start to this process.

Regarding natural products, the disposals of Your Mart, Wuhu Bee & Bee and Zhuhai Bee & Bee leave just the sale of birds nest and other natural products at the CVG 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 gains traction.

EMPLOYMENT AND REMUNERATION POLICIES

As at 30 June 2006, the Group employed 28 staff in Hong Kong, 2 staff in Singapore and 149 staff in the PRC. Staff costs excluding directors' remuneration amounted to approximately HK$7,873,000 (2005: HK$4,274,000). Employee remuneration is determined by reference to market terms and the performance, qualification and experience of individual employees. In addition to basic salaries and provident fund contributions, the Group also offers medical benefits and training programs. Share options may be granted to employees based on performance evaluation in order to provide incentives and rewards.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2006, shareholders' funds amounted to approximately HK$453,851,000 (2005: HK$170,771,000). Current assets amounted to approximately HK$356,185,000 (2005: HK$197,932,000), mainly comprising of cash and bank deposits. The Group had current liabilities amounting to approximately HK$43,063,000 (2005: HK$72,863,000), mainly its trade and other payables and bank borrowings. The Group's bank borrowings amounted to approximately HK$4,078,000 (2005: HK$56,439,000) for the year ended 30 June 2006. The Group financed its operations primarily with internally generated cash flows, banking facilities granted by banks and the placement of shares. The net asset value per share of the Company was approximately HK$0.73 (2005: HK$0.35). The gearing ratio was 14.45% (2005: 45.43%) on the basis of total liabilities divided by shareholders' funds.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

The business activities of the Group are not exposed to material fluctuations in exchange rates except the operations through its subsidiaries in the PRC and Singapore which are subject to fluctuation in exchange rates between Renminbi, Singaporean dollars and Hong Kong dollars.

SIGNIFICANT INVESTMENTS

For the year ended 30 June 2006, the Group did not have any significant investments.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

For the year ended 30 June 2006, the Group acquired a 51% equity interest in Cheerfull Group Holdings Limited which through its 100% wholly-owned subsidiary, Shenzhen Bozone IT Co., Ltd, is principally engaged in the research and development and application of information technology in the lottery field. This includes application software development and production of large online lottery systems and multi-platform wagering systems, integration of online lottery networks, network security system solutions, wagering terminals, operational solutions and operational consultation services.

The Group also acquired a 70% equity interest of CNPC Huayou Cu Energy investment Co. Ltd. ("CNPC Investment") for the year ended 30 June 2006. CNPC Investment has profit sharing rights to an oilfield development project located in Feng Cheng, Xin Jiang, the People's Republic of China.

CONTINGENT LIABILITIES

As at 30 June 2006, the Group did not have any material contingent liabilities.

CHARGES ON GROUP ASSETS

As at 30 June 2006, the Group pledged certain of its bank deposits and leasehold property as securities for the general banking facilities granted to the Group.

CAPITAL STRUCTURE

For the year ended 30 June 2006, 870,000 shares and 200,000 shares were issued due to the exercise of pre-IPO share options under the pre-IPO Share Option Scheme and share options under the existing Share Option Scheme. In addition, 68,000,000 shares were placed on 26 January 2006 to raise approximately HK$140,000,000. Besides, 48,730,000 shares were issued pursuant to the Share Award Scheme of the Company during the year. Furthermore, 24,122,807 shares were issued to acquire the 51% interest in Cheerfull Group Holdings Limited (which holds 100% of Shenzhen Bozone IT Co., Limited).

PRE-EMPTIVE RIGHTS

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

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

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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 PRACTICE

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.

Except for the deviation from the provision A.4.1 of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules, details of which are stated below, the Company has complied to all remaining provisions of the Code.

The Code provision A.4.1 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 Non-executive Directors (including 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 Non-executive Directors have given the Company's shareholders the right to approve continuation of Non-executive Directors' offices.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the rules set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code for dealing in securities of the Company by the Directors. 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 of conduct regarding securities transactions by the directors throughout the year.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based on the guidelines recommended by the Hong Kong Institute of Certified Public Accountants and the mandatory provisions set out in the Code.

The primary duties of the audit committee are to review the Company's annual report and accounts, half-yearly report and quarterly reports and to provide advices and comments thereon to the Board. The audit committee meets at least four times each year with management to review the accounting principles and practices adopted by the Group and to discuss auditing, internal control and financial reporting matters.

The audit committee currently comprises three Independent Non-executive Directors of the Company, namely Mr. Tian He Nian, Mr. Zhao Zhi Ming and Mr. To Yan Ming, Edmond.

The audit committee reviewed the Group's audit results for the year ended 30 June 2006 with management and the Company's external auditors and recommended its adoption by the Board.

By order of the Board
China Vanguard Group Limited
Chan Ting
Executive Director

Hong Kong, 28 September 2006

* *For identification purposes only*

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

This announcement, for which the directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM for the purpose of giving information which regard to the Company. The directors, having made all reasonable enquiries, confirm that, to be best of their knowledge and belief: (i) the information contained in this announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

This announcement will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for a minimum period of 7 days from the day of its posting.