APTUS

APTUS HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock code: 8212

ANNUAL REPORT 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 of the Stock Exchange 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 announcements 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.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the board of directors of Aptus Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to the Company. 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.

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Madam CHEUNG Kwai Lan
Mr. CHAN Ting
Mr. FUNG King Him, Daniel

Independent non-executive Directors

Mr. TIAN He Nian
Mr. ZHAO Zhi Ming
Mr. TO Yan Ming, Edmond

AUDIT COMMITTEE

Mr. TIAN He Nian
Mr. ZHAO Zhi Ming
Mr. TO Yan Ming, Edmond

REMUNERATION COMMITTEE

Mr. CHAN Ting
Mr. ZHAO Zhi Ming
Mr. TO Yan Ming, Edmond

AUTHORISED REPRESENTATIVES

Mr. CHAN Ting
Mr. FUNG King Him, Daniel

COMPLIANCE OFFICER

Mr. FUNG King Him, Daniel

COMPANY SECRETARY

Mr. TSUI Wing Tak *CPA*

QUALIFIED ACCOUNTANT

Mr. TSUI Wing Tak *CPA*

PRINCIPAL BANKER

Nanyang Commercial Bank, Limited
151 Des Voeux Road Central
Hong Kong

AUDITORS

W.H. Tang & Partners CPA Limited
Level 7, Parkview Centre
7 Lau Li Street
Causeway Bay
Hong Kong

SOLICITORS

Michael Li & Co.
14th Floor, Printing House
6 Duddell Street
Central
Hong Kong

REGISTERED OFFICE

Century Yard, Cricket Square
Hutchins Drive, P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

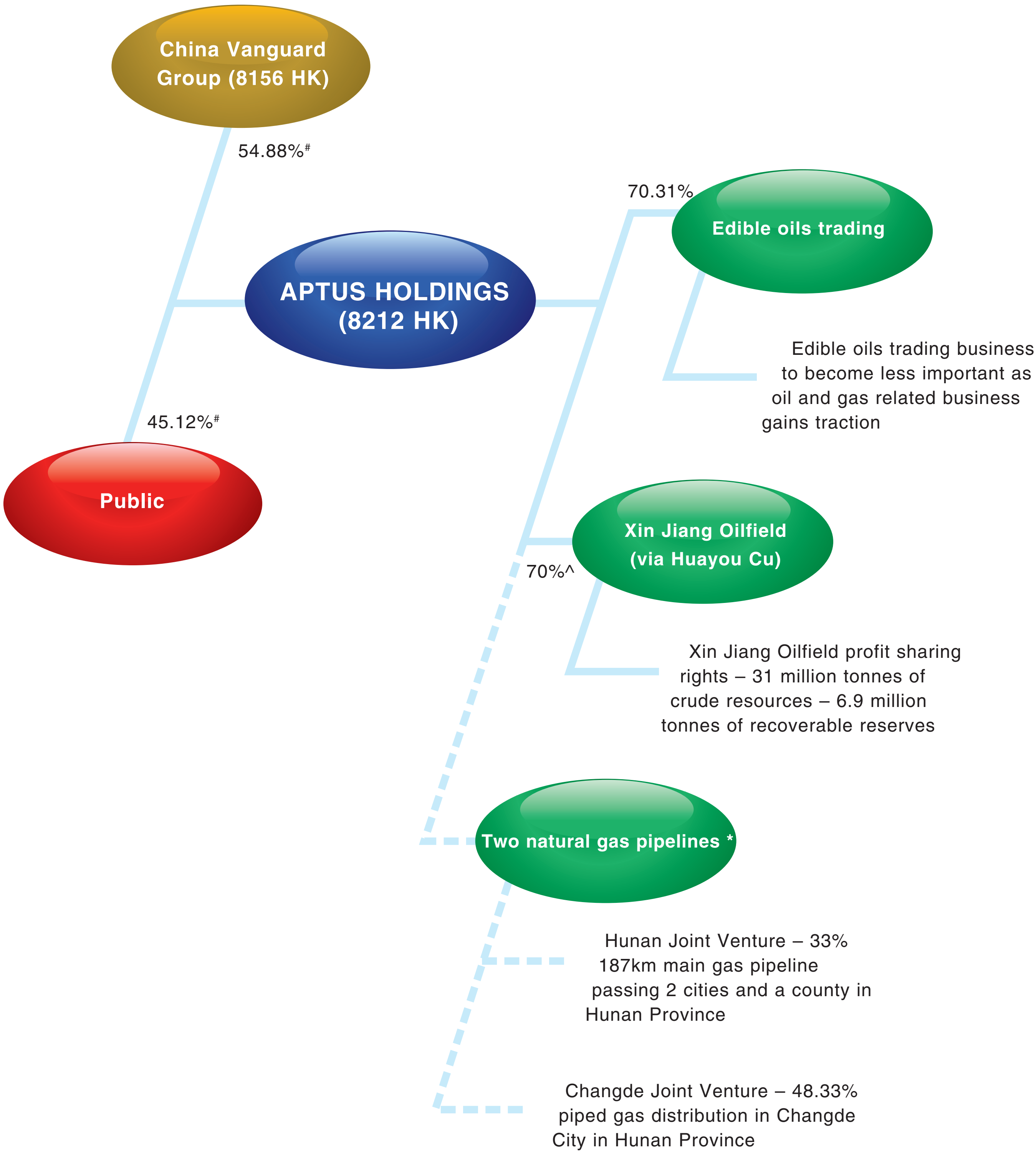
HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

30th Floor, Sunshine Plaza
No. 353 Lockhart Road
Hong Kong

SHARE REGISTRAR AND TRANSFER

Tengis Limited
26/F Tesbury Centre
28 Queen's Road East
Hong Kong

Corporate Structure



 # Shareholding as at 28 September 2006

^ 70% equity interest in CNPC Huayou Cu Energy Investment Co. Ltd. ("Huayou Cu"); 56% effective profit sharing interest

** Pending completion*

Chairman's Statement

I would like to express our sincere thanks to our shareholders for their continuing support to **Aptus Holdings Limited**

Dear shareholders,

On behalf of the board of directors of Aptus Holdings Limited (the "**Company**"), I herein present the results of the Company and its subsidiaries (the "**Group**") for the year ended 30 June 2006.

DEVELOPMENTS

Since the last time we spoke, the management of Aptus Holdings Limited has continued to work hard on developing and expanding the footprint of the Group in the oil and gas related industries. In January 2006, we completed the acquisition of a 70% equity interest in CNPC Huayou Cu Energy Investment Co. Ltd. giving the Group an effective 56% stake in the profit sharing rights of the Xin Jiang Oilfield.

In July 2006, the Company 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 & Distribution Company Limited ("Hunan Joint Venture") (a provincial level natural gas pipeline project). Completion of these two deals is now pending. Meanwhile, natural gas is expected to be flowing through the pipelines of both these two joint ventures by the end of 2006.

During this time, we have also continued to work closely with and strengthen our relationship with China Huayou Group Corporation ("**Huayou**"). Xin Jiang Oilfield is managed and operated by Huayou on our behalf and Huayou is also the largest shareholder in both the Changde and Hunan joint ventures. Huayou is a wholly-owned subsidiary of China National Petroleum Corporation ("**CNPC**"). CNPC is one of the two largest state-owned petroleum corporations in the PRC.

The longer term objective of management is to develop Aptus Holdings Limited into a major diversified oil and gas group. We believe that the Xin Jiang Oilfield acquisition and the signing of the two capital contribution agreements represent a good start to this process.

XIN JIANG OILFIELD

The Xin Jiang Oilfield is an oilfield development project in Feng Cheng, Xin Jiang in the PRC. The oilfield is divided into three blocks – Block 1, Block 32 and Block 43 over a total area of 10.7 sq. km.

Chairman's Statement

According to technical consultant, Information and Technology Development Company under China Offshore Enterprise, Xin Jiang Oilfield has geological crude reserves of 31 million tonnes of which 6.1 million to 7.7 million tonnes is commercially recoverable. Although development rights on the field extend to 31 December 2016, according to the consultant, all recoverable oil can be extracted within a 9-year period.

The development and operation of Xin Jiang Oilfield is being managed and executed by Huayou. During the period under review, we continued to work with Huayou on development plans for the field. Whilst no wells were completed during fiscal 2005/06, hence the lack of revenue contribution from the field in the financial year under review, we are pleased to report that as of the time of this writing, 17 production wells have been drilled.

THE HUNAN JOINT VENTURE

In July 2006, the Company entered into an agreement to make a capital contribution of RMB79.6 million to the Hunan Joint Venture. On completion, the Company would hold a 33.0% stake in the joint venture, Huayou 43.55% and Beijing Xin Hua Lian Gas Investment Company Limited 23.45%.

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 off the West-East Gas pipeline. The Hunan Joint Venture will source gas via the pipeline network from natural gas fields operated by the CNPC group. It will then transport this gas along its own 187 km pipeline for distribution to city level gas distribution companies. The pipeline passes through three areas in Hunan Province, namely Wangcheng County, Yiyang City and Changde City. Revenue will be generated by charging the city level gas distributors such as Changde Joint Venture a transportation fee on each cubic metre of natural gas delivered to them by the pipeline. The Changsha City to Changde City pipeline has already been completed and is expected to be in commercial operation by the end of 2006. This pipeline is expected to facilitate and also benefit from fast growing gas demand in Hunan Province.

THE CHANGDE JOINT VENTURE

In July 2006, Aptus Holdings Limited entered into an agreement to make a capital contribution to the Changde Joint Venture of RMB131.7 million. On completion, the Company would hold 48.33% in the joint venture, Huayou 51.0% and the Changde State-owned Asset Operation Management Company 0.67%.

The Changde Joint Venture is principally engaged in the business of gas pipeline design, the supply, development and management of natural gas pipelines and distribution facilities in the PRC. It constructs and operates the last mile pipeline distribution network to residential, commercial and industrial customers in Changde City and earns its revenue via collection of connection fees and sale of gas. Since commencement of its operations in October 1999, it had been supplying end users in Changde City with reconstituted liquid natural gas which is currently supplied by gas refueling station trailer. When the Changsha City to Changde City main gas pipeline comes onstream, which is expected to commence operation by end of 2006, natural gas from this pipeline will replace the reconstituted liquid natural gas as a source of gas. This is expected to improve logistics and operational efficiency as well as lower costs and end prices to the consumers thereby facilitating growth.

Chairman's Statement

FUTURE OUTLOOK AND PROSPECTS

Since 30 June 2005, Aptus Holdings Limited has made significant strides in establishing a footprint in the oil and gas related industries in the PRC. In this current financial year, 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 represent a good start to this process. This year, your management team will develop the assets we have on hand and will explore more business opportunities in the oil and gas related industries in the PRC. Further to this, we look to continue strengthening our working relationship with Huayou and look for further opportunities in which we can cooperate.

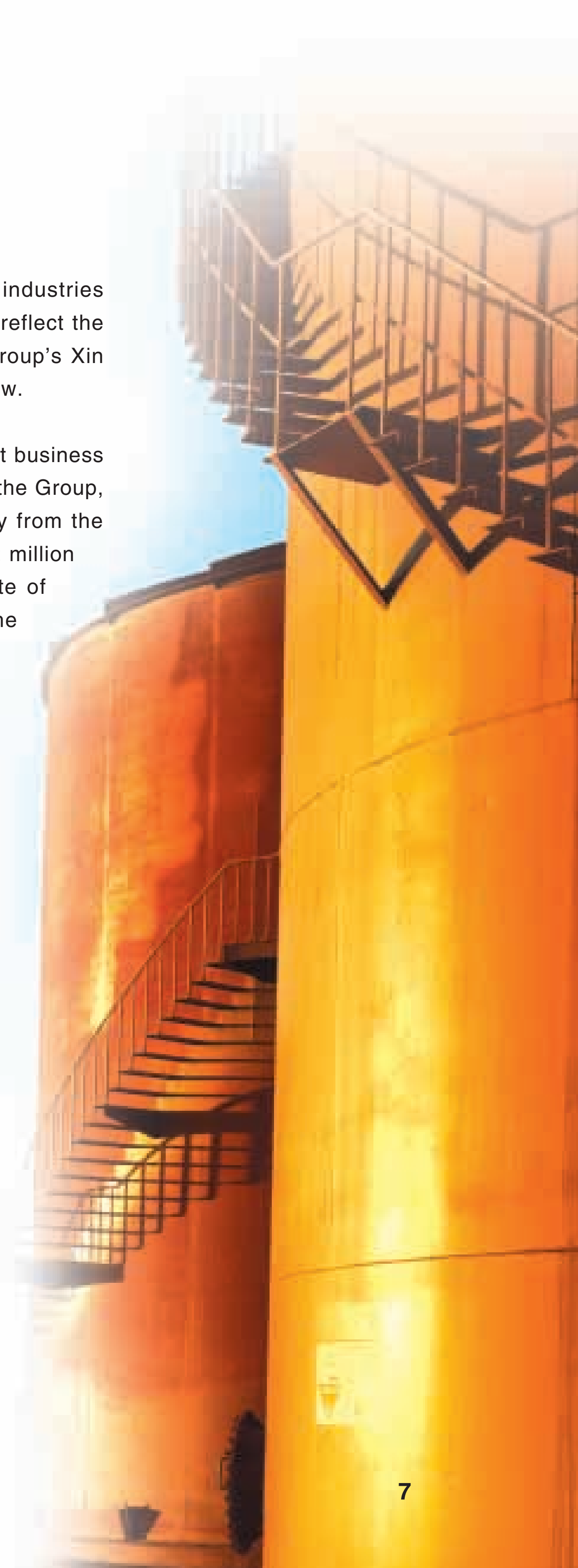
On behalf of the Board, I wish to thank all our valued shareholders, customers, business associates and advisors for their invaluable assistance and support.

Madam Cheung Kwai Lan
Chairman

Hong Kong, 28 September 2006

Management Discussion and Analysis

We aim to become a major diversified oil and gas group



FINANCIAL REVIEW

Despite the large strides being made on the oil and gas related industries side, the results for the 12 months to 30 June 2006 predominantly reflect the Group's edible oil trading operations as crude production at the Group's Xin Jiang Oilfield project had yet to commence in the period under review.

The edible oil operations performed poorly due to continuing difficult business conditions. Reflecting these conditions was the reduced revenue of the Group, which for the year ended 30 June 2006 was sourced almost solely from the edible oil trading operations. Revenue for the period was HK$30.82 million against HK$67.19 million in the period from 26 August 2004 (date of acquisition of the edible oil business) to 30 June 2005. Due to the reduced turnover, gross profit for the period was just HK$0.86 million against HK$2.2 million in the previous corresponding period.

At the bottom line, however, the Group recorded a net loss attributable to shareholders of HK$40.84 million for the year ended 30 June 2006 against a loss of HK$3.74 million previously.

Almost all of the HK$37.1 million increase in loss can be explained as follows: (i) a first time HK$23.21 million charge in 2005/06 for share option expenses; (ii) a HK$4.52 million year on year increase in staff costs; (iii) a HK$3.36 million impairment loss on goodwill for 2005/06; and (iv) the prior period's earnings were inflated by a HK$2.84 million gain on disposal of subsidiaries.

For the period under review, no dividends have been declared.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2006, the Group had assets of approximately HK$76.99 million (2005: approximately HK$24.09 million), including net cash and bank balances of approximately HK$3.36 million (2005: approximately HK$10.96 million).

Management Discussion and Analysis

As at 30 June 2006, the Group had borrowed loans of approximately HK$30.55 million and bank facilities of approximately HK$7.8 million, details of which please refer to note 28 to the financial statements. The gearing ratio, defined as the ratio between total borrowings and the Group's capital and reserves was 70.24% (2005: 0%). During the year ended 30 June 2006, the Group financed its operations and investing activities primarily with internally generated cash flows and borrowings.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

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

MATERIAL ACQUISITION

For the year ended 30 June 2006, the Group acquired a 70% equity interest in CNPC Huayou Cu Energy Investment Co. Limited at a consideration of approximately HK$97 million, of which approximately HK$59 million has been paid during the year.

CONTINGENT LIABILITIES

As at 30 June 2006, the Group had no contingent liabilities.

CAPITAL STRUCTURE

During the year ended 30 June 2006, the Company issued 97,985,000 shares under the share option scheme to provide incentives and rewards to its full time employees and other eligible participants. As at 30 June 2006, the number of the Company's issued shares was enlarged to 1,668,141,428 shares.

Directors and Senior Management

DIRECTORS

Executive Directors

Madam CHEUNG Kwai Lan, aged 68, was appointed as an Executive Director on 20 December 2004. She was also appointed as director of various subsidiaries of the Group. Madam Cheung Kwai Lan is responsible for business development, strategic planning and marketing for the Group. She is a founder and Chairman of China Vanguard Group Limited ("China Vanguard") (formerly known as B & B Group Holdings Limited) and is also the Vice President of the Zhang Xueliang Foundation (張學良基金會). She graduated from Shanxi Tai Yuan Medical School in 1960 and was a researcher at 山西省太原(原子能)研究所 (Shanxi Province Tai Yuan (Atomic Energy) Research Centre), which was one of the institutions of the Chinese Academy of Sciences. She also participated in the research and development of the radioactive material Cobalt 60 for imaging and cancer treatment. She is the mother of Mr. Chan Ting, being an Executive Director.

Mr. CHAN Ting, aged 36, was appointed as an Executive Director and the authorised representative of the Company on 27 August 2004. He is also the Chief Executive Officer of the Company and director of various subsidiaries of the Group. He was awarded a degree in Economics from Macquarie University in Australia in 1993. Mr. Chan Ting has over ten years of solid experience in establishing and managing companies in the PRC. He is an executive Director and Chief Executive Officer of China Vanguard which is the ultimate holding company of Aptus Holdings Limited and is a company listed on the GEM of the Stock Exchange. He is the son of Madam Cheung Kwai Lan, being an Executive Director.

Mr. FUNG King Him, Daniel, aged 36, was appointed as an Executive Director, the Compliance Officer and authorised representative of the Company on 27 August 2004. He holds a bachelor degree from the University of Wisconsin in the United States of America with double majors in Mathematics and Computer Science. He previously worked in Lehman Brothers Asia Limited, HSBC Asset Management Limited and Platinum Securities Company Limited.

Independent Non-executive Directors

Mr. TIAN He Nian, aged 66, was appointed as an Independent Non-executive Director and audit committee member of the Company on 30 September 2004. He was the Deputy Head of the Department of United Front Work of the Central Government of the PRC from 1998 to 2003. He is the Vice-Chairman of China Overseas Association. He is also an Independent Non-executive Director and audit committee member of China Vanguard.

Directors and Senior Management

Mr. ZHAO Zhi Ming, aged 64, was appointed as an Independent Non-executive Director and audit committee member of the Company on 20 January 2005. Mr. Zhao is the committee member of the 國家開發銀行專家委員會 (The Specialist Committee of the China Development Bank) and the Professor of the 遼寧工程技術大學 (LiaoNing Technical University). After graduation from the university in 1964, he had worked for several government authorities of the PRC, such as 天津市政府部門 (Tianjin Government) and 國家開發銀行 (China Development Bank) and 國家能源投資公司 (National Energy Investment Company of the PRC). Mr. Zhao has rich experience in managing and investing in large size infrastructure projects. He is also an Independent Non-executive Director and audit committee member of China Vanguard.

Mr. TO Yan Ming, Edmond, aged 34, was appointed as an Independent Non-executive Director and audit committee member of the Company on 11 January 2006. He holds a bachelor degree in Commerce in Accounting from Curtin University of Technology in Western Australia. He is a practicing accountant and presently the director of Fortitude C.P.A. Limited, Certified Public Accountants. He is a member of both the CPA Australia and Hong Kong Institute of Certified Public Accountants. He worked for one of the international accounting firms, Deloitte Touche Tohmatsu, and has over eight years of experience in auditing, accounting, flotation and taxation matters. He is also an Independent Non-executive Director and audit committee member of China Vanguard.

SENIOR MANAGEMENT

Mr. WONG Kim Ket, aged 45, is the Executive Director of a subsidiary of the Company, Hsing Long Trading Co. Pte. Ltd. in Singapore, which is mainly engaged in the edible oil business. He is one of the founders of the subsidiary and has been managing the subsidiary for more than seven years. His formal educational background is in computer engineering and he also holds a Master in Business Administration (MBA) from University of Oregon in USA. His responsibilities include overall day-to-day management and operations, and implementation and control of new as well as existing strategies and businesses for the subsidiary. He has more than sixteen years of working experience in international trade and financial operations.

Mr. TSUI Wing Tak, aged 37, was appointed as the Company Secretary and Qualified Accountant of the Company on 11 January 2006. He is also a director of a subsidiary of the Company. Mr. Tsui holds a bachelor degree in Economics from Macquarie University, Australia. He is a member of both the Hong Kong Institute of Certified Public Accountants and CPA Australia. He has over twelve years of experience in auditing, accounting and financing. He is also the Company Secretary of China Vanguard.

Mr. CHAN Ka Yin, aged 32, joined the Group as the Chief Financial Officer in March 2006. He holds a bachelor degree in Business Administration from the University of Hong Kong. He is a member of the Hong Kong Institute of Certified Public Accountants and Association of Chartered Certified Accountants. He has over ten years of experience in auditing, accounting and financial management.

Directors' Report

The Directors present their annual report and the audited consolidated financial statements for the year ended 30 June 2006.

PRINCIPAL ACTIVITIES AND ANALYSIS OF OPERATIONS

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 26 to the consolidated financial statements.

An analysis of the Group's performance for the year by business is set out in note 9 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 25.

The Directors do not recommend the payment of any dividend for the year.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 18 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 24 to the consolidated financial statements.

SHARE OPTION SCHEME

Details of movements in the share options of the Company during the year are set out in note 25 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group during the year are set out on page 27 of the annual report.

DISTRIBUTABLE RESERVES

As at 30 June 2006, the Company had no retained profits available for cash distribution and/or distribution in specie. As at 30 June 2006, under the Companies Law (2001 Second Revision) of the Cayman Islands, the Company's share premium account and capital reserve of approximately HK$88,096,000 and HK$15,826,000, respectively, may be distributed to the shareholders, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the five financial years is set out on page 68 of the annual report.

Directors' Report

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors

Madam Cheung Kwai Lan
Mr. Chan Ting
Mr. Fung King Him, Daniel

Independent Non-executive Directors

Mr. Tian He Nian	
Mr. Zhao Zhi Ming	
Mr. To Yan Ming, Edmond	(appointed on 11 January 2006)
Mr. Tsui Wing Tak	(resigned on 11 January 2006)

In accordance with Article 87(1) of the Articles of Association of the Company (the "Articles"), Mr. Tian He Nian, being the director to retire by rotation, shall retire from office and, being eligible, offers himself for re-election at the forthcoming annual general meeting.

In accordance with Article 86(3) of the Articles, all directors appointed after the Company's last annual general meeting will hold office until the next annual general meeting and shall then be eligible for re-election. In this regard, Mr. To Yan Ming, Edmond shall retire and, being eligible, offers himself for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

The three Executive Directors, Madam Cheung Kwai Lan, Mr. Chan Ting and Mr. Fung King Him, Daniel, have not entered into service contracts with the Company. They are not appointed for a specific term and are subject to retirement by rotation and re-election pursuant to the Articles. They are also entitled to terminate their appointment at any time by giving the Company at least three months' notice in writing. The three Independent Non-executive Directors, Mr. Tian He Nian, Mr. Zhao Zhi Ming and Mr. To Yan Ming, Edmond, have not entered into service contracts with the Company. They are not appointed for a specific term and are subject to retirement by rotation and re-election pursuant to the Articles.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

No other contracts of significance to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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

As at 30 June 2006, the interests of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

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

	Number of ordinary shares held				Percentage of the Company's issued share capital
Name of director	**Personal interest**	**Corporate interest**	**Under share option scheme**	**Total interest**	
Madam Cheung Kwai Lan	–	915,571,428	–	915,571,428	54.89

Note: These shares are owned by Precise Result Profits Limited, which is an indirect wholly-owned subsidiary of China Vanguard Group Limited ("China Vanguard") (formerly known as B & B Group Holdings Limited). Accordingly, Madam Cheung Kwai Lan is deemed to be interested in the shares of the Company under SFO for her controlling interests in Best Frontier Investments Limited, which owns approximately 38.64% of the issued share capital of China Vanguard.

(2) Share option scheme

Details of the share option scheme adopted by the Company are set out in note 25 to the consolidated financial statements. As at 30 June 2006, no share option had been granted or agreed to be granted to the Directors and chief executives under the share option scheme.

Save as disclosed above, as at 30 June 2006, none of the Directors or chief executives of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

Directors' Report

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors' and chief executives' interests in the shares, underlying shares and debentures of the Company or any associated corporation" above, at no time during the year was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors and chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any body corporate, and none of the directors and chief executives or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

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

As at 30 June 2006, so far as is known to the Directors and the chief executives of the Company, the interests and short positions of the persons or corporations in the shares or underlying shares of the Company which have been disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Name of Shareholders	Capacity	Number of ordinary shares held	Number of share options and underlying shares held	Aggregate long position	Percentage of shareholding
Precise Result Profits Limited ("Precise")	Directly held	915,571,428	–	915,571,428	54.89
China Success Enterprises Limited (Note 1)	Held by controlled corporations	915,571,428	–	915,571,428	54.89
China Vanguard (Note 2)	Held by controlled corporations	915,571,428	–	915,571,428	54.89
Best Frontier Investments Limited (Note 3)	Held by controlled corporations	915,571,428	–	915,571,428	54.89
Cheung Kwai Lan (Note 4)	Beneficial owner, held by controlled corporations	915,571,428	–	915,571,428	54.89
Chan Tung Mei (Note 5)	Beneficial owner, held by controlled corporations	915,571,428	–	915,571,428	54.89

Directors' Report

Notes:

1. Precise is a wholly owned subsidiary of China Success Enterprises Limited. The shares referred to herein related to the same parcel of shares held by Precise.

2. China Success Enterprises Limited is a wholly owned subsidiary of China Vanguard. The shares referred to herein related to the same parcel of shares held by Precise.

3. As at 30 June 2006, Best Frontier Investments Limited is interested in approximately 38.64% of the issued share capital of China Vanguard. The shares referred to herein related to the same parcel of shares held by Precise.

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 Investments Limited. Madam Cheung Kwai Lan is the spouse of Mr. Chan Tung Mei. Accordingly, Madam Cheung Kwai Lan is deemed to be interested in the shares under SFO. The shares referred to herein relate to the same parcel of shares held by Precise.

5. Madam Cheung Kwai Lan and Mr. Chan Tung Mei have equity interests of 99.89% and 0.11%, respectively of the issued share capital of Best Frontier Investments Limited. Mr. Chan Tung Mei is the spouse of Madam Cheung Kwai Lan. Accordingly, Mr. Chan Tung Mei is deemed to be interested in the shares under SFO. The shares referred to herein relate to the same parcel of shares held by Precise.

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

CONNECTED TRANSACTIONS

During the year, there were no significant transactions which require to be disclosed as connected transactions accordance with the requirements of the GEM Listing Rules and accounting principles generally accepted in Hong Kong.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 30 June 2006, the Group made 100% of its entire sales to two customers and sales to the largest customer included therein amounted to approximately 98%.

Purchases from the Group's three largest suppliers accounted for approximately 99% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 66%.

None of the directors of the Company, or any of their associates or any other shareholders, which, to the best knowledge of the directors, owns more than 5% of the Company's issued share capital, had any beneficial interest in the Group's two customers or three largest suppliers during the year.

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.

Directors' Report

EMPLOYEES, REMUNERATION POLICIES AND SHARE OPTION SCHEME

As at 30 June 2006, the Group had 24 full time employees. Remuneration is determined by reference to market terms and the performance, qualification and experience of individual employees. In addition to 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.

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.

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 audited results for the year ended 30 June 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. Four meetings were held during the current financial year.

The Company has received from each of the three Independent Non-executive Directors, an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all of the three Independent Non-executive Directors are independent.

Directors' Report

AUDITORS

Messrs. W.H. Tang & Partners CPA Limited has been appointed as the auditors of the Company in an extraordinary general meeting of the Company held on 1 November 2004.

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Messrs. W.H. Tang & Partners CPA Limited.

On behalf of the Board

Madam Cheung Kwai Lan
Chairman

Hong Kong, 28 September 2006

Corporate Governance Report

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 Rules Governing the Listing of Securities (the "GEM Listing Rules") on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited, details of which are stated under the heading of "NON-EXECUTIVE DIRECTORS" below, the Company has complied all remaining provisions of the Code.

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.

BOARD OF DIRECTORS

The Board of Directors (the "Board") comprises six Directors, of whom three are Executive Directors and three are Independent Non-executive Directors. The participation of Independent Non-executive Directors in the Board brings independent judgment on issues relating to the Group's strategies, performance, conflicts of interests and management process to ensure that the interests of all shareholders of the Company have been duly considered.

The Board considers that all the Independent Non-executive Directors are independent and has received from each of them the annual confirmation of independence required by the GEM Listing Rules.

The Board held at least a board meeting for each quarter. Details of the attendance of the Directors during the year are as follows:

	Attendance
Executive Directors	
Madam Cheung Kwai Lan	18/21
Mr. Chan Ting	21/21
Mr. Fung King Him, Daniel	16/21
Independent Non-executive Directors	
Mr. Tian He Nian	12/12
Mr. Zhao Zhi Ming	12/12
Mr. To Yan Ming, Edmond (appointed on 11 January 2006)	*5/5
Mr. Tsui Wing Tak (resigned on 11 January 2006)	**7/7

Corporate Governance Report

* For the period from 11 January 2006 to 30 June 2006, only five board meetings, in which the Independent Non-executive Directors had to attend, were held by the Company and Mr. To Yan Ming, Edmond attended all these five meetings.

** For the period from 1 July 2005 to 11 January 2006, only seven board meetings, in which the Independent Non-executive Directors had to attend, were held by the Company and Mr. Tsui Wing Tak attended all these seven meetings.

The Board is entrusted with the overall responsibility for promoting the success of the Company by the direction and supervision of the Company's business and affairs and the ultimate responsibility for the day to day management of the Company which is delegated to the Executive Directors and the management.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Madam Cheung Kwai Lan, Chairman of the Board, is the mother of Mr. Chan Ting, the Chief Executive Officer of the Company.

The posts of Chairman and Chief Executive Officer are separated to ensure a clear division between the Chairman's responsibility to manage the Board and the Chief Executive Officer's responsibility to manage the Company's business. The separation ensures a balance of power and authority so that power is not concentrated in any individual.

NON-EXECUTIVE DIRECTORS

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 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.

REMUNERATION COMMITTEE

The remuneration committee is tasked with the responsibility of overseeing Board remuneration matters.

The remuneration committee is made up of two Independent Non-executive Directors and one Executive Director of the Company, and is chaired by Mr. Chan Ting. The remaining two members are Mr. To Yan Ming, Edmond and Mr. Zhao Zhi Ming.

The role of the remuneration committee is to recommend to the Board a framework for remunerating the Board and key executives and to determine specific remuneration packages for each Executive Director of the Company. In carrying out of the above, the remuneration committee may obtain independent external legal and other professional advice as deemed necessary. The expenses of such advice shall be borne by the Company.

Corporate Governance Report

The remuneration package for the Executive Directors of the Company comprises a basic salary and a performance-related bonus for their contributions. The Independent Non-executive Directors receive a basic fee for their services. All revisions to the remuneration packages of the Directors are subject to the review and approval of the Board. The directors' fees are subject to shareholders' approval at the annual general meeting. Details of directors' remuneration for each Director are set out in note 13 to the financial statements.

During the year, no meeting was held and the remuneration committee decisions were approved by way of written resolutions passed by all the committee members. A resolution in writing signed by all the committee members shall be as valid and effectual as if it had been passed at a meeting of the remuneration committee duly convened and held. Meeting(s) of the remuneration committee will be convened in the year ending 30 June 2007.

NOMINATION OF DIRECTORS

The Board does not establish the nomination committee at present to make recommendations to the Board on appointment of Directors. The Company understands the needs to maintain its cost competitiveness in the current difficult market conditions and will review the need for a nomination committee at an appropriate time.

Candidates are appointed to the Board on the basis of the competencies and experience that they would be bringing to the Company. The Company believes that members of the Board, individually and collectively, have satisfactorily discharged their duties to the Company.

During the year, the Board has held only one meeting regarding nomination of Mr. To Yan Ming, Edmond as an Independent Non-executive Director. All Directors of the Company have attended that meeting.

AUDITORS' REMUNERATION

During the year, remuneration paid/payable to auditors for audit services and non-audit services are approximately HK$200,000 and HK$180,000, respectively.

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. To Yan Ming, Edmond, Mr. Tian He Nian and Mr. Zhao Zhi Ming.

Corporate Governance Report

The audit committee met four times during the year. Individual attendance of each committee member at these meetings is as follows:

	Attendance
Mr. To Yan Ming, Edmond *(Chairman, appointed on 11 January 2006)*	*2/2
Mr. Tsui Wing Tak *(ex-Chairman, resigned on 11 January 2006)*	**2/2
Mr. Tian He Nian	4/4
Mr. Zhao Zhi Ming	4/4

* For the period from 11 January 2006 to 30 June 2006, only two audit committee meetings were held by the Company and Mr. To Yan Ming, Edmond attended all these two meetings.

** For the period from 1 July 2005 to 11 January 2006, only two audit committee meetings were held by the Company and Mr. Tsui Wing Tak attended all these two meetings.

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.

Auditors' Report

鄧偉雄會計師事務所有限公司

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W.H. TANG & PARTNERS CPA LIMITED

TO THE MEMBERS OF APTUS HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Aptus Holdings Limited (the "Company") and its subsidiaries (the "Group") on pages 25 to 67 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of consolidated financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the consolidated financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

Auditors' Report

OPINION

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 30 June 2006 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

W.H. Tang & Partners CPA Limited
Hong Kong, 28 September 2006

Tang Wai Hung
Practising Certificate Number P03525

Consolidated Income Statement

For the year ended 30 June 2006

	Notes	Year ended 30 June 2006 HK$'000	Period from 1 October 2004 to 30 June 2005 HK$'000
Revenue	10	**30,820**	67,190
Cost of sales		**(29,963)**	(64,992)
Gross profit		**857**	2,198
Other revenue	10	**64**	271
Selling and distribution costs		**(420)**	(1,689)
Administrative expenses		**(40,085)**	(7,337)
Gain on disposal of subsidiaries		**–**	2,842
Finance costs	11	**(1,438)**	(30)
Loss before taxation	12	**(41,022)**	(3,745)
Income tax expenses	15	**(14)**	–
Loss for the year/period		**(41,036)**	(3,745)
Attributable to:			
Equity holders of the Company		**(40,837)**	(3,740)
Minority interests		**(199)**	(5)
		(41,036)	(3,745)
Loss per share			
Basic	16	**(HK2.53 cents)**	(HK0.24 cent)
Diluted	16	**(HK2.32 cents)**	(HK0.22 cent)

Consolidated Balance Sheet

At 30 June 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	18	**173**	53
Goodwill	19	**31,761**	3,361
		31,934	3,414
CURRENT ASSETS			
Accounts receivables	20	**–**	9,605
Prepayments, deposits and other receivables	21	**41,691**	117
Bank balances and cash		**3,360**	10,955
		45,051	20,677
CURRENT LIABILITIES			
Accounts payables	22	**266**	9,549
Accrued liabilities and other payables		**2,655**	1,575
Taxation		**14**	5
Borrowings	23	**8,053**	–
		10,988	11,129
NET CURRENT ASSETS		**34,063**	9,548
TOTAL ASSETS LESS CURRENT LIABILITIES		**65,997**	12,962
NON-CURRENT LIABILITIES			
Borrowings	23	**22,500**	–
		43,497	12,962
CAPITAL AND RESERVES			
Share capital	24	**16,681**	15,501
Reserves		**12,743**	(2,647)
Equity attributable to equity holders of the parent		**29,424**	12,854
Minority interests		**14,073**	108
		43,497	12,962

The financial statements on pages 25 to 67 were approved and authorized for issue by the Board of Directors on 28 September 2006.

CHAN TING	**FUNG KING HIM, DANIEL**
Director	*Director*

Consolidated Statement of Changes in Equity

For the year ended 30 June 2006

	Attributable to equity holders of the Company							
	Share capital HK$'000	Share option reserve HK$'000	Translation reserve HK$'000	Share premium account HK$'000	Capital reserve HK$'000	Accumulated losses HK$'000	Minority interests HK$'000	Total HK$'000
At 1 October 2004 as previously reported	15,468	–	7	55,175	17,240	(70,148)	–	17,742
Effect of changes in accounting policies (note 4)	–	–	–	–	–	–	113	113
At 1 October 2004 as restated	15,468	–	7	55,175	17,240	(70,148)	113	17,855
Shares issued on exercise of options	33	–	–	233	–	–	–	266
Capital reserve realized on disposal of subsidiaries	–	–	–	–	(1,414)	–	–	(1,414)
Net loss for the period	–	–	–	–	–	(3,740)	(5)	(3,745)
At 30 June 2005 as restated	15,501	–	7	55,408	15,826	(73,888)	108	12,962
At 30 June 2005 as previously reported	15,501	–	7	55,408	15,826	(73,888)	–	12,854
Effect of changes in accounting policies (note 4)	–	–	–	–	–	–	108	108
At 30 June 2005 as restated and 1 July 2005	15,501	–	7	55,408	15,826	(73,888)	108	12,962
Shares issued on exercise of options	980	–	–	8,888	–	–	–	9,868
Shares issued pursuant to sale and purchase agreement	200	–	–	23,800	–	–	–	24,000
Acquisition of subsidiary	–	–	–	–	–	–	14,152	14,152
Recognition of equity-settled share based payments	–	23,207	–	–	–	–	–	23,207
Exchange differences arising from translation of financial statements of overseas operations	–	–	332	–	–	–	12	344
Net loss for the year	–	–	–	–	–	(40,837)	(199)	(41,036)
At 30 June 2006	**16,681**	**23,207**	**339**	**88,096**	**15,826**	**(114,725)**	**14,073**	**43,497**

Consolidated Cash Flow Statement

For the year ended 30 June 2006

	Note	**Year ended 30 June 2006 HK$'000**	Period from 1 October 2004 to 30 June 2005 HK$'000
OPERATING ACTIVITIES			
Loss before taxation		**(41,022)**	(3,745)
Adjustments for:			
Interest income		**(109)**	(16)
Finance costs		**1,438**	30
Gain on disposal of subsidiaries		**–**	(2,842)
Depreciation of property, plant and equipment		**31**	464
Share option expenses		**23,207**	–
Impairment loss on goodwill		**3,361**	–
Amortization of goodwill		**–**	621
Operating cash flows before movements in working capital		**(13,094)**	(5,488)
Decrease in accounts receivables		**9,605**	17,301
Increase in prepayments, deposits and other receivables		**(29,718)**	(122)
Decrease in accounts payables		**(9,283)**	(13,098)
Decrease in accrued liabilities and other payables		**(947)**	(1,064)
Net cash used in operations		**(43,437)**	(2,471)
Tax paid		**(5)**	(6)
NET CASH USED IN OPERATING ACTIVITIES		**(43,442)**	(2,477)
INVESTING ACTIVITIES			
Interest received		**109**	16
Purchases of property, plant and equipment		**(24)**	(60)
Acquisition of a subsidiary	27	**(4,981)**	–
Proceeds from disposal of subsidiaries		**–**	(26)
NET CASH USED IN INVESTING ACTIVITIES		**(4,896)**	(70)
FINANCING ACTIVITIES			
Interest paid		**(22)**	(30)
Issue of shares		**9,868**	266
Repayment of trust receipt loans		**–**	(4,305)
New borrowings raised		**30,553**	–
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**40,399**	(4,069)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(7,939)**	(6,616)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD		**10,955**	17,571
Effect of foreign exchange rate changes		**344**	–
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD			
Represented by,			
Bank balances and cash		**3,360**	10,955

Notes to the Consolidated Financial Statements

1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is China Vanguard Group Limited (formerly known as B & B Group Holdings Limited), which is incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the GEM of the Stock Exchange. The Company's registered office is located at Century Yard, Cricket Square, Hutchins Drive, P.O.Box 2681 GT, George Town, Grand Cayman, British West Indies and its principal place of business is located at 30/F., Sunshine Plaza, 353 Lockhart Road, Wanchai, Hong Kong.

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

The principal activities of the Company is investment holding. Its subsidiaries are principally engaged in the sales and distribution of edible oil and mining operation of Xin Jiang Oilfield.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The consolidated financial statements for the current period cover the year ended 30 June 2006. The corresponding comparative amounts shown for the consolidated income statement, consolidated statements of changes in equity, consolidated cash flow statement and related notes cover a 9 month period from 1 October 2004 to 30 June 2005 and therefore may not be comparable with amounts shown for the current period. The period covered by 2005 financial statements was less than 12 months because the directors of the Company determined to bring the balance sheet date in line with that of the ultimate holding company.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS AND 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 ("INTs") (hereinafter collectively referred to as "new HKFRS") issued by the Hong Kong Institutes 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 the consolidated statement of changes in equity. In particular, the presentation of minority interests has 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/or prior accounting years are prepared and presented:

Business combinations

The adoption of HKFRS 3 *"Business Combinations"* has resulted in a change in the accounting policy relating to the discontinuation of amortization of goodwill arising on acquisitions.

Notes to the Consolidated Financial Statements

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES – continued

Business combinations – continued

In previous years, goodwill arising on acquisitions was capitalized and amortized over its estimated useful life. With respect to goodwill previously capitalized on the consolidated balance sheet, the Group on 1 July 2005 eliminated the carrying amount of the related accumulated amortization of approximately HK$690,000 with a corresponding decrease in the cost of goodwill (see note 19). The Group has discontinued amortizing such goodwill from 1 July 2005 onwards and such goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1 July 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition and will be tested for impairment at least annually. As a result of this change in accounting policy, no amortization of goodwill has been charged in the current year. Comparative figures for the corresponding period have not been restated.

In the current year, the Group has also applied HKAS 21 *"The Effects of Changes in Foreign Exchange Rates"* which requires goodwill to be treated as assets and liabilities of the foreign operation and translated at closing rate at each balance sheet date. Previously, goodwill arising on acquisitions of foreign operations was reported at the historical rate at each balance sheet date. In accordance with the relevant transitional provisions in HKAS 21, goodwill arising on acquisitions prior to 1 July 2005 is treated as a non-monetary foreign currency item. Therefore, no prior period adjustment has been made. In the current year, the Group acquired a foreign operation, and goodwill arose on the acquisition of that foreign operation has been translated at the closing rate at 30 June 2006. There is no material impact on the Group's translation reserve in respect of that transaction.

Share-based payments

In the current year, the Group has applied HKFRS 2 *"Share-based Payment"* which requires an expenses to be recognized where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over share ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to eligible participants of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognize the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 January 2005. In relation to share options granted before 1 January 2005, the Group chooses not to apply HKFRS 2 with respect to share options granted on or before 7 November 2002 and vested before 1 January 2005. In relation to share options granted by the Group after 7 November 2002, all of them were vested before 1 January 2005 and therefore no comparative figures have been restated.

Notes to the Consolidated Financial Statements

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES – continued

Financial instruments

In the current year, the Group has applied HKAS 32 *"Financial Instruments: Disclosure and Presentation"* and HKAS 39 *"Financial Instruments: Recognition and Measurement"*. HKAS 32 requires retrospective application and HKAS 39, which is effective for accounting periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measure financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact or how financial instruments of the Group are presented for current and prior accounting periods. The principal effects resulting from the implementation of HKAS 39 are summarized below:

Classification and measurement of financial assets and financial liabilities
The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Financial assets and financial liabilities other than debt and equity securities
From 1 July 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of Statement of Standard Accounting Practice 24) in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognized in profit or loss directly. Other financial liabilities are carried at amortized cost using the effective interest method after initial recognition. The Group has applied the relevant transitional provisions in HKAS 39. However, there has been no material effect on how the results for the current accounting period are prepared and presented.

4. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effect of the change in the accounting policies described above on the results for the year ended 30 June 2006 is principally the recognition of share-based payments as expenses of approximately HK$23,207,000 and there is no material effect on the result for the period ended 30 June 2005.

The cumulative effects of the application of the new HKFRSs on equity as at 1 October 2004, 30 June 2005 and 1 July 2005 were reclassification of minority interests under the Group's capital and reserves, which is resulted from adoption of HKAS 1 *"Presentation of Financial Statements"*. Accordingly, the equity of the Group as at 1 October 2004 was increased by HK$113,000 from HK$17,742,000 to HK$17,855,000 and that as at 30 June 2005 and 1 July 2005 was increased by HK$108,000 from HK$12,854,000 to HK$12,962,000.

Notes to the Consolidated Financial Statements

5. POTENTIAL IMPACT ARISING ON THE NEW ACCOUNTING STANDARDS NOT YET EFFECTIVE

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new HKFRSs will have no material impact on the consolidated financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 21 (Amendment)	Net Investment in a Foreign Operation[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts[2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC) – Int 4	Determining whether an Arrangement Contains a Lease[2]
HK(IFRIC) – Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds[2]
HK(IFRIC) – Int 6	Liabilities arising from Participating in a Specific Market, Waste Electrical and Electronic Equipment[3]
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

[1] Effective for annual periods beginning on or after 1 January 2007
[2] Effective for annual periods beginning on or after 1 January 2006
[3] Effective for annual periods beginning on or after 1 December 2005
[4] Effective for annual periods beginning on or after 1 March 2006

Notes to the Consolidated Financial Statements

6. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong, which include HKFRSs issued by the HKICPA and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the GEM and of the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year ended 30 June 2006. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All inter-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1 July 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

For previously capitalized goodwill, the Group has discontinued amortization from 1 July 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1 July 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalized goodwill arising on an acquisition of subsidiaries is presented separately in the balance sheet.

Notes to the Consolidated Financial Statements

6. SIGNIFICANT ACCOUNTING POLICIES – continued

Goodwill – continued

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalized is included in the determination of the amount of profit and loss disposal.

Revenue recognition

Revenue from sales of goods is recognized on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to the customers and the title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment, comprising office equipment, furniture and fixtures and computers equipment, are stated at cost less accumulated depreciation and any identified impairment losses. The cost of an item of property, plant and equipments comprises its purchase price and any directly attributable costs of bringing the property, plant and equipment to its working condition and location for its intended use. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalized as an additional cost of that property, plant and equipment.

Notes to the Consolidated Financial Statements

6. SIGNIFICANT ACCOUNTING POLICIES – continued

Property, plant and equipment – continued

Property, plant and equipment are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Furniture and fixtures	20%
Office equipment	20%
Computer equipment	20%

Impairment losses on assets other than goodwill

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognized as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other standard.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Notes to the Consolidated Financial Statements

6. SIGNIFICANT ACCOUNTING POLICIES – continued

Taxation – continued

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognized in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognized in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in equity, in which cases, the exchange differences are also recognized directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Notes to the Consolidated Financial Statements

6. SIGNIFICANT ACCOUNTING POLICIES – continued

Foreign currencies – continued

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 July 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognized in the translation reserve.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Employee benefits

(a) Retirement benefits schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiary that operated in the People's Republic of China and Singapore are required to participate in a central pension scheme operated by the local municipal government and Central Provident Fund Scheme, respectively. These subsidiaries are required to contributed pension, based on a certain percentage of their payroll costs, to the pension schemes. The contributions are charged to income statement as they become payable in accordance with the rules of the pension schemes.

Notes to the Consolidated Financial Statements

6. SIGNIFICANT ACCOUNTING POLICIES – continued

Employee benefits – continued

(b) *Share option schemes*

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who, in the sole discretion of the Board, have contributed or may contribute to the Group. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Financial instruments

Financial assets and financial liabilities are recognized on the balance sheet when a Group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise.

Notes to the Consolidated Financial Statements

6. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, deposits and loan receivables) are carried at amortized cost using the effective interest method, less any identified impairment losses. An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognized, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Available-for-sale financial assets

Available-for-sale financial assets are investments in unlisted equity securities which are intended to be held for a continuing strategic or long term purpose and are stated at fair value, except for those equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any accumulated identified losses.

In respect of available-for-sale financial assets carried at fair value, the gains or losses arising from changes in the fair value of an investment are dealt with as movements in the investment revaluation reserve, until the investment is sold, collected, or otherwise disposed of, or until the investment is determined to be impaired, the cumulative gain or loss derived from the investment recognized in the investment revaluation reserve, together with the amount of any further impairment, is charged to the income statement in the year in which the impairment arises.

In respect of available-for-sale financial assets carried at cost less any accumulated impairment losses, when there is objective evidence that an impairment loss has been incurred on an investment, the carrying amount of the investment should be reduced to the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and the amount of the impairment is charged to the income statement in the year in which it arises. Impairment losses recognized shall not be reversed in subsequent periods.

Notes to the Consolidated Financial Statements

6. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including trade and other payables and borrowings are subsequently measured at amortized cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards or ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognized directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's consolidated balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognized and the consideration received or receivable is recognized in profit or loss.

Equity-settled share-based payment transactions

Share options granted to directors, employees or other eligible participants of the Company

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the time when the share options are exercised, the amount previously recognized in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognized in share option reserve will be transferred to retained earnings.

6. SIGNIFICANT ACCOUNTING POLICIES – continued

Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the income statement on a straight-line basis over the lease periods.

Retirement benefit costs

Payments to state-managed retirement benefits scheme and the defined contribution schemes are charged as expense as they fall due.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the costs of that asset.

All other borrowing costs are charged to the consolidated income statement in the year in which they are incurred.

7. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 6, management has made the following judgments that have significant effect on the amounts recognized in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below:

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account of their estimated residual value. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year and the estimate will be changed in the future period.

Notes to the Consolidated Financial Statements

7. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual cash flows are less than expected, a material impairment loss may arise. As at 30 June 2006, the carrying amount of goodwill is approximately HK$31,761,000. Details of impairment test for goodwill are set out in note 19.

Income taxes

As at 30 June 2006, no deferred tax asset was recognized in the Group's consolidated balance sheet in relation to the estimated unused tax losses of HK$5,403,000 due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are more than expected, a material recognition of deferred tax asset may arise, which would be recognized in the income statement for the period in which such recognition takes place.

Share option expenses

The share option expenses are subject to the limitations of the Black-Scholes option pricing model and the uncertainty in estimates used by management in the assumptions. The estimates include limited early exercise behavior, expected interval and frequency of open exercise periods in the share option life, and other relevant parameters of the share option model (see note 25 for the estimates).

The number of options to be vested at the end of vesting period involves management estimation. Should the number of options being vested at the end of vesting period be changed, there would be material changes in the amount of share option benefits recognized in the consolidated income statement and share option reserve.

Notes to the Consolidated Financial Statements

8. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include prepayments, deposits and other receivables, accounts payables, other payables and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 30 June 2006 in relation to each class of recognized financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimize the credit risk, the management of the Group has closely monitoring the recoverability of the financial assets. In addition, the Group reviews the recoverable amount of each individual financial assets at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Foreign currency risk

For the year ended 30 June 2006, the Group's trade transactions are denominated in foreign currency. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's interest-bearing borrowings.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of borrowings. The Group's exposure to liquidity risk is minimal.

Notes to the Consolidated Financial Statements

9. SEGMENT INFORMATION

Business segments

The Group is engaged in the businesses of oil mining and distribution of edible oil. During the year ended 30 June 2006 and period ended 30 June 2005, the Group's revenue was entirely contributed by its business of edible oil distribution.

Summary details of the business segments are as follows:

	Oil mining		Distribution of edible oil		Total	
	Year ended 30 June 2006 HK$'000	Period from 1 October 2004 to 30 June 2005 HK$'000	**Year ended 30 June 2006 HK$'000**	Period from 1 October 2004 to 30 June 2005 HK$'000	**Year ended 30 June 2006 HK$'000**	Period from 1 October 2004 to 30 June 2005 HK$'000
Segment revenue:						
Sales to external customers	**–**	–	**30,820**	67,190	**30,820**	67,190
Segment results	**(470)**	–	**(90)**	40	**(560)**	40
Unallocated income					**81**	3,135
Unallocated expenses					**(39,105)**	(6,890)
Finance costs					**(1,438)**	(30)
Loss before taxation					**(41,022)**	(3,745)
Income tax expenses					**(14)**	–
Loss for the year/period					**(41,036)**	(3,745)

9. SEGMENT INFORMATION – continued

Business segments – continued

	Oil mining		Distribution of edible oil		Total	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**41,913**	–	**1,298**	10,517	**43,211**	10,517
Unallocated assets					**33,774**	13,574
Total assets					**76,985**	24,091
Segment liabilities	**661**	–	**519**	9,656	**1,180**	9,656
Unallocated liabilities					**32,308**	1,473
Total liabilities					**33,488**	11,129

					Year ended 30 June 2006	Period from 1 October 2004 to 30 June 2005
					HK$'000	HK$'000
Other segment information:						
Depreciation and amortization – Unallocated					**31**	1,085
Capital expenditure – Unallocated					**24**	60
Impairment loss on goodwill recognized in the income statement	**–**	–	**3,361**	–	**3,361**	–
Other non-cash expenses					**23,207**	–

Notes to the Consolidated Financial Statements

9. SEGMENT INFORMATION – continued

Geographical segments

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

	Revenue		Segment results		Segment assets		Capital expenditure	
	Year ended 30 June 2006 HK$'000	Period from 1 October 2004 to 30 June 2005 HK$'000	**Year ended 30 June 2006 HK$'000**	Period from 1 October 2004 to 30 June 2005 HK$'000	**30 June 2006 HK$'000**	30 June 2005 HK$'000	**30 June 2006 HK$'000**	30 June 2005 HK$'000
PRC	**–**	14,964	**(470)**	9	**41,913**	–	**–**	–
Hong Kong	**–**	–	**–**	–	**33,773**	13,574	**24**	60
South East Asia	**30,204**	42,954	**(88)**	26	**1,299**	10,517	**–**	–
Europe	**616**	9,272	**(2)**	5	**–**	–	**–**	–
	30,820	67,190	**(560)**	40	**76,985**	24,091	**24**	60
Unallocated income			**81**	3,135				
Unallocated expenses			**(39,105)**	(6,890)				
Finance costs			**(1,438)**	(30)				
Loss before taxation			**(41,022)**	(3,745)				
Income tax expenses			**(14)**	–				
Loss for the year/period			**(41,036)**	(3,745)				

Notes to the Consolidated Financial Statements

10. REVENUE AND OTHER REVENUE

The Group is principally engaged in the businesses of distribution of edible oil and oil mining.

Revenue represents invoiced value of sales, net of returns, discounts allowed or sales taxes where applicable. Revenue recognized during the year is as follows:

	Year ended 30 June 2006 HK$'000	Period from 1 October 2004 to 30 June 2005 HK$'000
Revenue		
Sales of goods	**30,820**	67,190

	Year ended 30 June 2006 HK$'000	Period from 1 October 2004 to 30 June 2005 HK$'000
Other revenue		
Interest income	**109**	16
Exchange losses, net	**(45)**	(54)
Others	**–**	309
	64	271

11. FINANCE COSTS

	Year ended 30 June 2006 HK$'000	Period from 1 October 2004 to 30 June 2005 HK$'000
Interest on borrowings wholly repayable within five years	**1,438**	30

Notes to the Consolidated Financial Statements

12. LOSS BEFORE TAXATION

	Year ended 30 June 2006 HK$'000	Period from 1 October 2004 to 30 June 2005 HK$'000
Loss before taxation has been arrived at after charging:		
Staff costs (excluding directors' emoluments – note 13):		
– Wages and salaries	**4,272**	1,324
– Retirement benefits scheme contributions	**134**	65
Total staff costs	**4,406**	1,389
Cost of inventories sold	**29,963**	64,992
Auditors' remuneration	**200**	206
Depreciation of property, plant and equipment	**31**	464
Amortization of goodwill	**–**	621
Impairment loss on goodwill	**3,361**	–
Share option expenses	**23,207**	–
Minimum lease payments under operating leases:		
– Land and buildings	**795**	–

13. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

Emoluments paid or payable to each of the 7 (Period ended 30 June 2005: 7) directors of the Company during the year were as follows:

For the year ended 30 June 2006

	Fees HK$'000	Salaries and other emoluments HK$'000	Contribution to retirement benefits scheme HK$'000	Total HK$'000
Executive Directors:				
Cheung Kwai Lan	24	1,950	–	1,974
Chan Ting	24	1,300	12	1,336
Fung King Him, Daniel	24	405	12	441
Independent Non-executive Directors:				
Tsui Wing Tak (Note 1)	13	–	–	13
Tian He Nian	39	–	–	39
Zhao Zhi Ming	39	–	–	39
To Yan Ming, Edmond (Note 2)	22	–	–	22
	185	3,655	24	3,864

Notes to the Consolidated Financial Statements

13. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS – continued

(a) Directors' emoluments – continued

For the period ended 30 June 2005

	Fees HK$'000	Salaries and other emoluments HK$'000	Contribution to retirement benefits scheme HK$'000	Total HK$'000
Executive Directors:				
Cheung Kwai Lan	12	900	–	912
Chan Ting	18	1,000	9	1,027
Fung King Him, Daniel	18	295	9	322
Independent Non-executive Directors:				
Tsui Wing Tak (Note 1)	18	–	–	18
Tian He Nian	62	–	–	62
Zhao Zhi Ming	18	–	–	18
Qi Mei (Note 3)	6	–	–	6
	152	2,195	18	2,365

Note 1: resigned on 11 January 2006
Note 2: appointed on 11 January 2006
Note 3: resigned on 20 January 2005

(b) Senior management emoluments

Of the five individuals whose emoluments were the highest in the Group for the year include three (2005: three) directors whose emoluments are set out in the above. The emoluments payable to the remaining two (2005: two) individuals during the year as follows:

	Year ended 30 June 2006 HK$'000	Period from 1 October 2004 to 30 June 2005 HK$'000
Salaries, allowances and other benefits	**1,905**	544
Contributions to retirement benefits scheme	**23**	18
	1,928	562

Notes to the Consolidated Financial Statements

13. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS – continued

(b) Senior management emoluments – continued

The emoluments fell with the following bands:

	No. of individuals	
	Year ended 30 June 2006	Period from 1 October 2004 to 30 June 2005
Emoluments bands		
Nil – HK$1,000,000	**1**	2
HK$1,000,001 – HK$2,000,000	**1**	–

During the year ended 30 June 2006, no emoluments have been paid by the Group to the non-Directors and the highest paid individuals as an inducement to join the Group, or as compensation for loss of office (2005: Nil).

14. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 30 June 2006 HK$'000	Period from 1 October 2004 to 30 June 2005 HK$'000
Wages and salaries	**8,112**	3,671
Pension cost – defined contribution plans	**158**	83
	8,270	3,754

Notes to the Consolidated Financial Statements

15. INCOME TAX EXPENSES

The amount of tax charged to the consolidated income statement represents:

	Year ended 30 June 2006 HK$'000	Period from 1 October 2004 to 30 June 2005 HK$'000
Overseas income tax		
– Underprovision in prior years	**14**	–

No provision for Hong Kong Profits Tax and income tax in other jurisdictions has been made as the Group has no assessable profits in Hong Kong and other jurisdictions for the year (Period ended 30 June 2005: Nil).

The amount of income tax expenses charged to the consolidated income statement reconciled to the loss per consolidated income statement is as follows:

	Year ended 30 June 2006 HK$'000	Period from 1 October 2004 to 30 June 2005 HK$'000
Loss before taxation	**(41,022)**	(3,745)
Tax at the Hong Kong Profits Tax rate of 17.5% (2005: 17.5%)	**(7,179)**	(656)
Tax effect of expenses that are not deductible for tax purposes	**7,200**	1,326
Tax effect of unrecognized general provision for doubtful debts	**–**	157
Tax effect of income that is not taxable for tax purposes	**(14)**	(819)
Tax effect of unrecognized accelerated tax allowances	**(4)**	(8)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(3)**	–
Tax effect of underprovision in prior years	**14**	–
Income tax expenses	**14**	–

Notes to the Consolidated Financial Statements

15. INCOME TAX EXPENSES – continued

The components of unrecognized deductible (taxable) temporary differences at the balance sheet date are as follows:

	2006 HK$'000	2005 HK$'000
Deductible temporary differences:		
Unutilized tax losses	5,403	5,403
Taxable temporary differences:		
Accelerated tax allowances	(55)	(39)
	5,348	5,364

At the balance sheet date, the Group have unused tax losses of approximately HK$5,403,000 (2005: HK$5,403,000) available for offset against future profits. No deferred tax asset has been recognized in respect of the unused tax losses due to the unpredictability of future profits streams of the subsidiaries. Deductible temporary differences have not been recognized in these financial statements owing to the absence of objective evidence in respect of the availability of sufficient taxable profits that are expected to arise to offset against the deductible temporary differences. The relevant tax losses have no expiry date.

16. LOSS PER SHARE

The calculation of the basic and diluted loss per share is based on the Group's loss attributable to the equity holders of the Company:

	Year ended 30 June 2006 HK$'000	Period from 1 October 2004 to 30 June 2005 HK$'000
Loss for the purposes of basic loss per share	40,837	3,740

Notes to the Consolidated Financial Statements

16. LOSS PER SHARE – continued

Number of shares

	'000	'000
Weighted average number of ordinary shares for the purpose of basic loss per share	**1,615,396**	1,547,155
Effect of dilutive potential ordinary shares:		
Share options	**146,646**	145,171
Weighted average number of ordinary shares for the purpose of diluted loss per share	**1,762,042**	1,692,326

17. DIVIDENDS

No dividend was paid or proposed during the year ended 30 June 2006, nor has any dividend been proposed since the balance sheet date (Period ended 30 June 2005: Nil).

18. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Computer equipment HK$'000	Office equipment HK$'000	Total HK$'000
COST					
At 1 October 2004	2,119	1,421	15,458	–	18,998
Additions	–	42	18	–	60
Disposals of subsidiaries	(2,119)	(1,421)	(15,458)	–	(18,998)
At 30 June 2005	–	42	18	–	60
Additions	–	2	20	2	24
Acquisition of a subsidiary	–	13	110	4	127
At 30 June 2006	**–**	**57**	**148**	**6**	**211**
DEPRECIATION					
At 1 October 2004	2,119	1,274	14,242	–	17,635
Provided for the period	–	31	433	–	464
Disposals of subsidiaries	(2,119)	(1,300)	(14,673)	–	(18,092)
At 30 June 2005	–	5	2	–	7
Provided for the year	–	10	20	1	31
At 30 June 2006	**–**	**15**	**22**	**1**	**38**
CARRYING VALUES					
At 30 June 2006	**–**	**42**	**126**	**5**	**173**
At 30 June 2005	–	37	16	–	53

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

Notes to the Consolidated Financial Statements

19. GOODWILL

	HK$'000
COST	
At 1 October 2004 and 30 June 2005	4,051
Arising on acquisition of subsidiaries	31,761
Elimination on amortization accumulated prior to adoption of HKFRS 3	(690)
At 30 June 2006	**35,122**
AMORTIZATION	
At 1 October 2004	69
Charge for the period	621
At 30 June 2005	690
Elimination on amortization accumulated prior to adoption of HKFRS3	(690)
At 30 June 2006	**–**
IMPAIRMENT	
At 1 October 2004 and 30 June 2005	–
Impairment loss recognized for the year	3,361
At 30 June 2006	**3,361**
CARRYING VALUES	
At 30 June 2006	**31,761**
At 30 June 2005	3,361

The goodwill, which arose from acquisition of subsidiaries, is not amortized commencing from 1 July 2005 in accordance with the transitional provisional of HKFRS 3.

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units that are expected to benefit from that business combination.

The Group tests goodwill annually for impairment, or more frequently if there is any indication that goodwill might be impaired.

Notes to the Consolidated Financial Statements

19. GOODWILL – continued

In connection with the impairment test on the goodwill arising from the acquisition of a subsidiary, CNPC Huayou Cu Energy Investment Co. Limited ("Huayou Cu"), during the year, the management of the Group prepared a profit forecast and a cash flow forecast (the "Forecast") in respect of Huayou Cu. The cash flow forecast based on financial budgets approved by management covering a period of 3 years and a discount rate of 5%. Cash flow forecast during the budget period are based on the expected gross margins during the budget period. Budgeted gross margins have been determined based on the management's expectation for the market development and the management believes that the budgeted gross margins are reasonable. The directors are of the opinion, based on the Forecast, that the recoverable amount of the goodwill arising from acquisition of Huayou Cu, the recoverable amount exceeds its carrying amount in the consolidated balance sheet and no impairment is necessary.

20. ACCOUNTS RECEIVABLES

Accounts receivables, which generally have credit terms of not more than 90 days, are recognized and carried at original invoiced amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

	2006 **HK$'000**	2005 HK$'000
Trade receivables	–	9,605

An aged analysis of the Group's accounts receivables at the balance sheet dates, based on the date of goods delivered is as follows:

	2006 **HK$'000**	2005 HK$'000
Within 90 days	–	9,605

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Include in prepayments, deposits and other receivables are prepayments for the drilling operation of the 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).

Notes to the Consolidated Financial Statements

22. ACCOUNTS PAYABLES

	2006 HK$'000	2005 HK$'000
Trade payables	**266**	9,549

An aged analysis of the Group's accounts payables at the balance sheet dates, based on the date of goods and services received, is as follows:

	2006 HK$'000	2005 HK$'000
Within 90 days	**139**	9,549
Over 90 days	**127**	–
	266	9,549

The fair value of the Group's accounts payables as at 30 June 2006 approximates to the corresponding carrying amount.

23. BORROWINGS

	2006 HK$'000	2005 HK$'000
Secured loan (note a)	**22,500**	–
Unsecured loan (note b)	**8,053**	–
	30,553	–

(a) The loan is interest-bearing at 2% over prime rate, secured by corporate guarantee from China Vanguard, the ultimate holding company of the Company, and not repayable within the year.

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

23. BORROWINGS – continued

Borrowings are repayable as follows:

	2006	2005
	HK$'000	HK$'000
On demand or within one year	**8,053**	–
In more than one year but not more than two years	**22,500**	–
	30,553	–
Less: Amount shown under non-current liabilities	**(22,500)**	–
	8,053	–

24. SHARE CAPITAL

	Notes	**Number of shares**	HK$'000
Authorized:			
At 1 October 2004, 30 June 2005 and 30 June 2006, shares of HK$0.01 each		20,000,000,000	200,000
Issued and fully paid:			
At 1 October 2004, shares of HK$0.01 each		1,546,831,428	15,468
Shares issued on exercise of options		3,325,000	33
At 30 June 2005		1,550,156,428	15,501
Issue of shares pursuant to sale and purchase agreement	(i)	20,000,000	200
Shares issued on exercise of options	(ii)	97,985,000	980
At 30 June 2006		1,668,141,428	16,681

Changes in the share capital of the Company during the year ended 30 June 2006 were as follows:

(i) On 17 June 2005, the Group entered into a sales and purchase agreement for acquisition of a 70% equity interest in Huayou Cu at a consideration of cash of HK$5 million and 20,000,000 ordinary shares of the Company of HK$0.01 per share. Accordingly, the Company allotted and issued 20,000,000 ordinary shares, which rank pari passu with the existing shares in all respects (see note 27 for further details).

Notes to the Consolidated Financial Statements

24. SHARE CAPITAL – continued

(ii) The Company allotted and issued 15,270,000, 75,700,000 and 7,015,000 shares of HK$0.01 each for cash at the exercise prices of HK$0.08, HK$0.1006 and HK$0.147 per share respectively, as a result of the exercise of share options.

25. SHARE OPTION SCHEME

The Company currently operates a share option scheme (the "Scheme"), which is adopted on 13 May 2002, for the purpose of providing incentives and rewards to the eligible participants who, in the sole discretion of the Board, have contributed or may contribute to the Group.

Pursuant to the Scheme, the board of directors may, at their discretion, grant share options (the "Options") to eligible participants who, in the sole discretion of the Board, have contributed or may contribute to the Group. The Scheme became effective on 14 May 2002 and will remain in force for ten years from that date.

The maximum number of unexercised Options currently permitted to be granted under the Scheme is an amount equivalent to, upon their exercise, 10% of the shares of the Company in issue as at the date of the approval of the Scheme or the date of the general meeting for refreshing the 10% limit under the scheme. The limit on the number of shares which may be issued upon exercise of all outstanding options granted under the Scheme must not exceed 30% of the shares of the Company in issue from time to time. The maximum number of shares issuable under the Scheme to each eligible participant in the Scheme within any 12-month period is limited to 1% of the number of shares of the Company in issue at any time.

The offer of a grant of the Options may be accepted in writing within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the Options granted is determined by the board of directors, and shall not be more than ten years from the date of the grant of the Options. The Scheme does not require a minimum period for which the Options must be held nor a performance target which must be achieved before the Options can be exercised.

The subscription price will be determined by the board of directors, but may not be less than the highest of (i) the closing price of shares on the Stock Exchange on the date of grant of the Options; (ii) the average of the closing prices of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of grant of the Options; and (iii) the nominal value of the Company's shares on the date of offer.

During the year, 125,030,000 Options were granted to certain eligible participants and 97,985,000 Options, which were granted in previous years have been exercised.

25. SHARE OPTION SCHEME – continued

Details of movements in the Options of Scheme held by eligible participants are as follows:

2006 Eligible participants	Date of grant	Exercise price* HK$	Outstanding at 1/7/2005	Granted during the year	Exercised during the year	Outstanding at 30/6/2006	Exercise period of Options
	20/3/2006	2.54	–	125,030,000	–	125,030,000	20/3/2006 to 19/3/2008
	1/11/2004	0.1006	154,680,000	–	(75,700,000)	78,980,000	1/11/2004 to 30/10/2009
	30/9/2004	0.147	19,250,000	–	(7,015,000)	12,235,000	30/9/2004 to 29/9/2009
	10/9/2004	0.08	37,425,000	–	(15,270,000)	22,155,000	10/9/2004 to 9/9/2009
			211,355,000	125,030,000	(97,985,000)	238,400,000	

2005 Eligible participants	Date of grant	Exercise price* HK$	Outstanding at 1/10/2004	Granted during the period	Exercised during the period	Outstanding at 30/6/2005	Exercise period of Options
	1/11/2004	0.1006	–	154,680,000	–	154,680,000	1/11/2004 to 30/10/2009
	30/9/2004	0.147	19,250,000	–	–	19,250,000	30/9/2004 to 29/9/2009
	10/9/2004	0.08	40,750,000	–	(3,325,000)	37,425,000	10/9/2004 to 9/9/2009
			60,000,000	154,680,000	(3,325,000)	211,355,000	

* The exercise price of the Options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The exercise in full of the Options would, under the present capital structure of the Company, result in the issue of 238,400,000 additional ordinary shares of the Company at additional share capital of HK$2,384,000 and share premium of HK$326,708,533 (before issue expenses).

At 30 June 2006, the number of shares in respect of which Options had been granted and remained outstanding under the scheme was 14.29% (2005: 13.63%) of the shares of the Company in issue at that date.

Notes to the Consolidated Financial Statements

25. SHARE OPTION SCHEME – continued

During the year ended 30 June 2006, options were granted on 20 March 2006. The closing price of the Company's shares on 20 March 2006 was HK$2.60. The estimated fair value of the options granted on is approximately HK$85,800,000.

These fair values were calculated by using the Black-Scholes pricing model. The inputs into the model were as follows:

Share price on grant date	HK$2.60
Exercise price	HK$2.54
Expected volatility	57.63%
Expected life	2 years
Risk-free rate	4%
Expected dividend yield	0%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 1 year. The expected life used in the model has been adjusted, based on the management's best estimate, for the effects on non transferability, exercise restrictions and behavioural considerations.

The risk-free interest rate represents the yields to maturity of respective Hong Kong Exchange Fund Note as at 20 March 2006.

The Group recognized the total expenses of approximately HK$23,207,000 for the year ended 30 June 2006 (2005: Nil) in relation to Options granted by the Company.

Subsequent to the balance sheet date, on 5 July 2006, a total of 300,000 Options were exercised. At the date of approval of these financial statements, the Company has 238,100,000 Options outstanding under the Scheme, which represented approximately 14.27% of the Company's shares in issue at that date.

Notes to the Consolidated Financial Statements

26. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 30 June 2006 are as follows:

Name	Place of incorporation and operations	Nominal value of issued and paid-up share	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Good United Management Limited	British Virgin Islands	Ordinary US$1	100%	–	Investment holding
Top Entrepreneur Profits Limited	British Virgin Islands	Ordinary US$200	75%	–	Investment holding
B & B Natural Products (BVI) Limited	British Virgin Islands	Ordinary US$1	–	75%	Investment holding
Rapid Progress Profits Limited	British Virgin Islands	Ordinary US$8	–	56.25%	Investment holding
Hsing Long Trading Co. Pte. Ltd.	Singapore	Ordinary SGD100,000	–	70.31%	Distribution of natural supplementary foods
CNPC Huayou Cu Energy Investment Co., Limited	People's Republic of China	Registered capital of RMB100,000,000	–	70%	Oil mining

Notes to the Consolidated Financial Statements

27. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Acquisition of a subsidiary

During the year the Group acquired a 70% equity interest in Huayou Cu, the only equity holder of which immediately before the acquisition was 中匯(國際)投資發展有限公司 (China United (International) Investment Development Limited) ("China United"). As detailed in note 24(i), the Group has paid cash of HK$5,000,000 and issued 20,000,000 ordinary shares of the Company of HK$0.01 per share for the acquisition. The closing price of the Company's share as at 11 January 2006, the completion date of the transaction, was HK$1.2 and non-cash consideration of HK$24,000,000 for this acquisition transaction was resulted. The registered capital of Huayou Cu is RMB100,000,000 (equivalent to approximately HK$97,087,000) and RMB15,950,000 (equivalent to approximately HK$15,485,000) has been paid up by China United and considered as the capital contributed by China United upon the completion of aforesaid acquisition. Accordingly, the Group has to further invest RMB70,000,000 (equivalent to approximately HK$67,961,000) into Huayou Cu and during the year, the Group has invested RMB31,099,000 (equivalent to approximately HK$30,000,000). The total consideration for the acquisition transaction is HK$96,961,000, which has been partially settled by issuance of the Company's shares of HK$24,000,000 and cash of HK$35,000,000 up to the balance sheet date.

Set out below is the details of Huayou Cu upon completion of the acquisition and goodwill of approximately HK$31,761,000 was recorded in this transaction.

	2006 **HK$'000**	2005 HK$'000
NET ASSETS ACQUIRED		
Property, plant and equipment	**127**	–
Prepayments, deposits and other receivables	**11,856**	–
Bank balances and cash	**19**	–
Accrued liabilities and other payables	**(611)**	–
Minority interests	**(14,152)**	–
	(2,761)	–
Goodwill on acquisition	**31,761**	–
Total consideration	**29,000**	–
SATISFIED BY		
Cash consideration	**5,000**	–
Shares allotted	**24,000**	–
Total consideration	**29,000**	–
Net cash outflow arising on acquisition:		
Cash consideration	**(5,000)**	
Bank balances and cash acquired	**19**	–
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	**(4,981)**	–

Notes to the Consolidated Financial Statements

27. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT – continued

The acquiree's carrying amount of net assets before combination approximates to its fair value. Accordingly, no fair value adjustments are required. Huayou Cu contributed to the Group's loss before taxation by approximately HK$463,000 between the date of acquisition and the balance sheet date.

28. BANKING FACILITIES

As at 30 June 2006, the Group's banking facilities which consisted mainly of facilities on letter of credit, amounting to HK$7,800,000 (2005: HK$101,400,000) were secured by certain unconditional and irrevocable corporate guarantees.

29. OPERATING LEASE ARRANGEMENTS

As at 30 June 2006, the Group had commitments for future minimum lease payments in respect of land and buildings under non-cancellable operating leases which fall due as follows:

	2006 **HK$'000**	2005 HK$'000
Within one year	**664**	–

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

30. CAPITAL COMMITMENTS

	2006 **HK$'000**	2005 HK$'000
Capital expenditure in respect of the investment in a subsidiary authorized but not contracted for	**37,768**	–

31. MAJOR NON-CASH TRANSACTIONS

(a) As detailed in note 24(i), 20,000,000 ordinary shares of HK$0.01 each were allotted and issued for acquisition of a 70% equity interest in Huayou Cu during the year.

(b) During the year, the Group incurred share option expenses of approximately HK$23,207,000.

(c) During the year, the Group made an impairment loss on goodwill of approximately HK$3,361,000.

Notes to the Consolidated Financial Statements

32. CONTINGENT LIABILITIES

At 30 June 2006, the Group did not have any significant contingent liabilities (2005: Nil).

33. RETIREMENT BENEFITS SCHEME

With the introduction of Mandatory Provident Fund Scheme (the "MPF Scheme") in December 2000 in Hong Kong, the Group has arranged its employees in Hong Kong to join the MPF Scheme. The retirement benefits scheme contributions charged to the income statements represents contributions payable to the MPF Scheme by the Group at rates specified in the rules of the MPF Scheme.

The total costs charged to the income statements of approximately HK$134,000 (2005: HK$83,000) represent contributions payable to the MPF Scheme in respect of the current accounting period.

The employees of the Group's subsidiary that operated in the People's Republic of China and Singapore are required to participate in a central pension scheme operated by the local municipal government and Central Provident Fund Scheme, respectively. These subsidiaries are required to contribute pension, based on a certain percentage of their payroll costs, to the pension schemes. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

34. PROVISION FOR LONG SERVICE PAYMENTS

Under the Hong Kong Employment Ordinance, the Group is obliged to make lump sum payments on cessation of employment in certain circumstances to certain employees who have completed at least five years of service with the Group. The amount payable is dependent on the employee's final salary and years of service, and is reduced by entitlements accrued under the Group's retirement plan that are attributable to contributions made by the Group. The Group does not set aside any assets to fund any remaining obligations.

No significant provision for long service payments was made on 30 June 2006 (2005: Nil).

35. SHARE AWARD SCHEME

On 13 October 2004, the Company adopted a share award scheme for employees and consultants, excluding Executive Directors and chief executives, of the Group for the purpose of recognising the contributions of certain employees and consultants of the Group to the growth of the Group, by rewarding them with opportunities to obtain an ownership interest in the Company and to further motivate them and give an incentive to these persons to continue to contribute to the Group's long term success and prosperity. No shares were granted under the share award scheme since its adoption on 13 October 2004 and up to the date of this report.

36. RELATED PARTY TRANSACTIONS

Compensation of directors and key management personnel

	Year ended 30 June 2006 HK$'000	Period from 1 October 2004 to 30 June 2005 HK$'000
Short-term benefits	**6,603**	3,102
Post-employment benefits	**68**	45
	6,671	3,147

37. VERY SUBSTANTIAL ACQUISITION

Pursuant to an announcement dated 2 August 2006, on 25 July 2006, the Company 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. Ltd. and 33% equity interest in Hunan Huayou Natural Gas Transportation & Distribution Company Limited, at cash consideration of approximately HK$128 million and HK$77 million, respectively.

Changde Huayou Gas Co. Ltd. is managing 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 main gas pipeline and to generate revenue by charging the city level gas distributors, such as Changde Huayou Gas Co. Ltd., a transportation fee based on each cubic meter of natural gas transported along the pipeline, after the completion of the pipeline construction work.

Under the GEM Listing Rules, the agreements and the transactions contemplated therein constitute a very substantial acquisition for the Company and therefore need to seek approval from the Company's shareholders in the extraordinary general meeting, which is to be held subsequent to the balance sheet date.

38. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

Financial Summary

RESULTS

	Year ended 30 June 2006 HK$'000	Period from 1 October 2004 to 30 June 2005 HK$'000	Year ended 30 September 2004 HK$'000	2003 HK$'000	2002 HK$'000
Revenue	**30,820**	67,190	34,392	17,154	20,517
Cost of sales	**(29,963)**	(64,992)	(32,143)	(36,990)	(12,660)
Gross profit (loss)	**857**	2,198	2,249	(19,836)	7,857
Other revenue	**64**	271	4,345	189	170
Selling and distribution costs	**(420)**	(1,689)	–	(2,088)	(1,609)
Administrative expenses	**(40,085)**	(7,337)	(13,299)	(12,716)	(9,581)
Other operating expenses	**–**	–	(2,703)	(19,342)	–
Loss on disposal of a jointly controlled entity	**–**	–	(2,789)	–	–
Gain on disposal of subsidiaries	**–**	2,842	60	–	–
Finance costs	**(1,438)**	(30)	(291)	(14)	–
Share of loss of a jointly controlled entity	**–**	–	(53)	(14)	–
Loss before taxation	**(41,022)**	(3,745)	(12,481)	(53,821)	(3,163)
Income tax expenses	**(14)**	–	–	–	(185)
Loss for the year/period	**(41,036)**	(3,745)	(12,481)	(53,821)	(3,348)

ASSETS AND LIABILITIES

	At 30 June		At 30 September		
	2006 HK$'000	2005 HK$'000	2004 HK$'000	2003 HK$'000	2002 HK$'000
Total assets	**76,985**	24,091	50,100	24,842	71,526
Total liabilities	**(33,488)**	(11,129)	(32,245)	(14,070)	(6,933)
	43,497	12,962	17,855	10,772	64,593
Equity attributable to equity holders of the Company	**29,424**	12,854	17,742	10,772	64,111
Minority interests	**14,073**	108	113	–	482
	43,497	12,962	17,855	10,772	64,593

Note:

The Company was incorporated in Cayman Islands on 26 November 2001 and became the holding company of the Group with effect from 27 February 2002 upon completion of the group reorganization as set out in the Company's prospectus dated 30 April 2002.