众彩科技股份有限公司*

CHINA VANGUARD GROUP LTD.

(incorporated in the Cayman Islands with limited liability)

Stock code: 8156

ANNUAL REPORT 2006

* for identification purposes only

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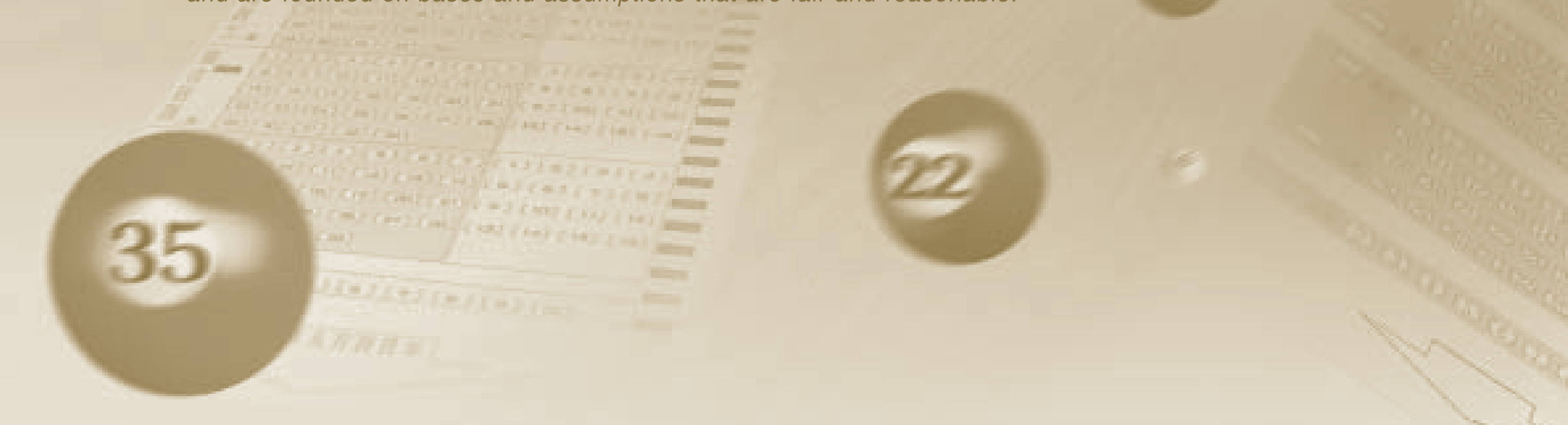
This report, for which the directors of China Vanguard Group Limited collectively and individually accept full responsibility, includes particulars given in compliance with Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to China Vanguard Group Limited. The directors of China Vanguard Group Limited, having made all reasonable enquiries, confirm that, to the best of their knowledge and beliefs; (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) 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 Tung Mei
Mr. CHAN Ting
Mr. LAU Hin Kun

Non-executive Director

Mr. SHAW Kyle Arnold Junior

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

Madam CHEUNG Kwai Lan
Mr. CHAN Ting

COMPLIANCE OFFICER

Mr. CHAN Ting

COMPANY SECRETARY

Mr. TSUI Wing Tak *CPA*

QUALIFIED ACCOUNTANT

Mr. KWAN Yiu Ming, Patrick *FCCA FCPA*

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

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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No. 353 Lockhart Road
Hong Kong

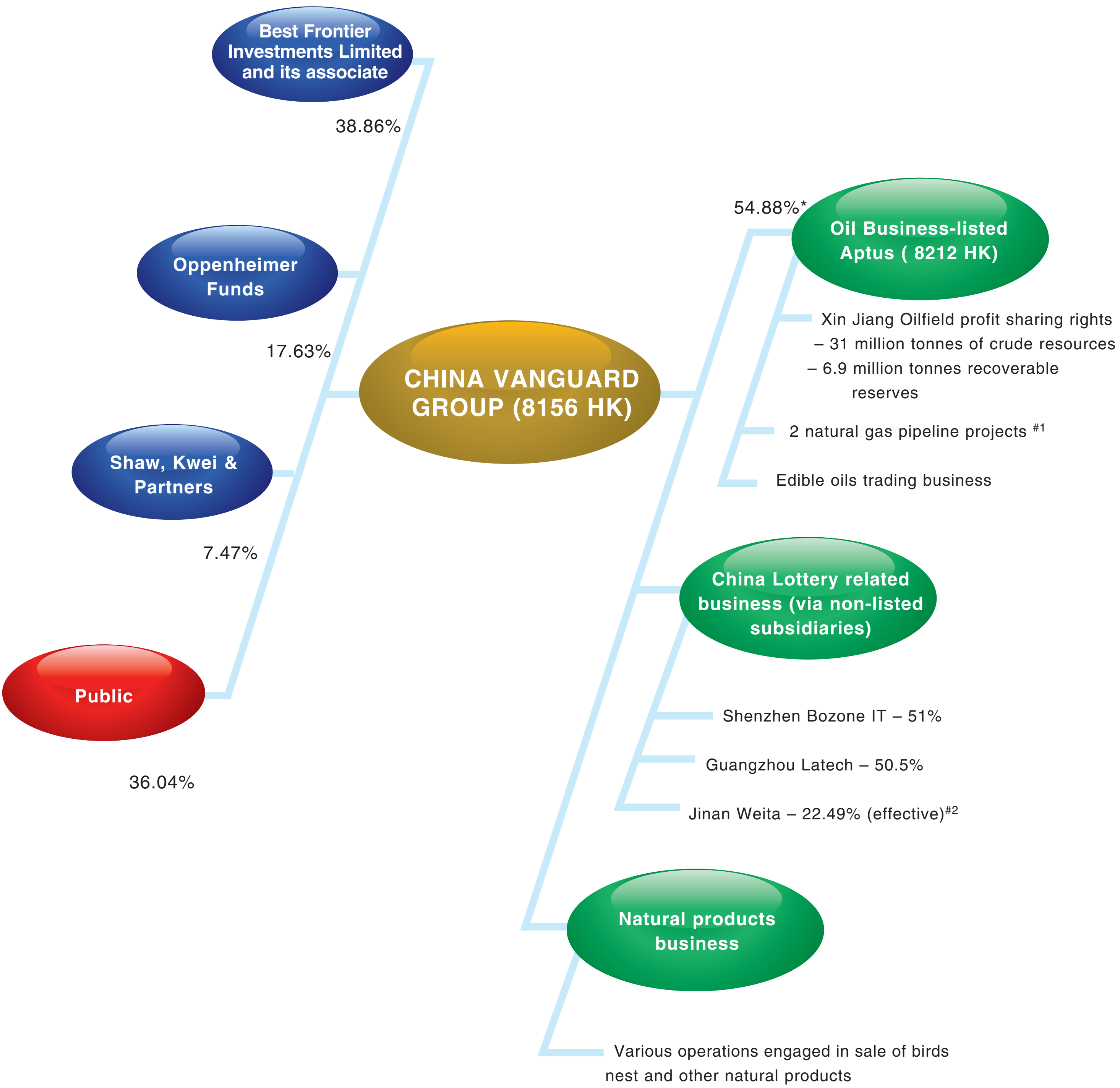
WEBSITE

www.cvg.com.hk

SHARE REGISTRAR AND TRANSFER OFFICE

Standard Registrars Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Corporate Structure



* Shareholding as at 28 September 2006

#1 Pending completion

#2 Pending completion to 63%

Chairman's Statement

I would like to express our sincere thanks to our shareholders for their continuing support to China Vanguard Group Ltd.

Dear shareholders,

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

DEVELOPMENTS

Since the end of the previous financial year, it has been a period of significant transition for the Group and has seen us move away from being solely a natural products manufacturer and distributor to also become engaged in the China lottery-related sector and oil related industries.

On the China lottery-related side, in March 2006 we completed the acquisition of a 51% stake in Shenzhen Bozone IT Co. Limited and announced the proposed acquisition of a 63% interest in Jinan Weita Technology Company Limited and in June 2006, we completed the formation of joint venture Guangzhou Latech Computer Technology Company Limited. As a result, we now have operations engaged in both the traditional welfare lottery-related and sports lottery-related segments of the fast growing China lottery industry.

On the oil related industries side, our 54.88% owned subsidiary Aptus Holdings Limited ("Aptus") completed the acquisition of an effective 56% profit sharing right in the Xin Jiang Oilfield and signed two capital contribution agreements for two natural gas related projects in Hunan Province. During the period, Aptus continued to work closely with and strengthen its relationship with China Huayou Group Corporation ("Huayou"). The Xin Jiang Oilfield is managed and operated by Huayou on our behalf and Huayou is also the largest shareholder in both the aforementioned two natural gas related projects in Hunan Province. 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.

Meanwhile, in April 2006, in order to streamline our structure and better focus our resources on the China lottery-related sector and the oil related industries, we announced that we had entered into an agreement to sell off our minority stake in distributor and retailer of consumer and consumable goods, Your Mart Co., Limited ("Your Mart"). In August 2006, we announced that we entered into a contract to effectively dispose of our manufacturing and distribution of mead business in the PRC.

In July 2006, we changed our name from B & B Group Holdings Limited to China Vanguard Group Limited to better reflect the now more diverse nature of our business operations.

Chairman's Statement

DIVIDEND

In appreciation of your continuing support, we have proposed for your approval a one-for-two bonus share issue and also a one-for-five bonus warrants issue.

CHINA LOTTERY-RELATED OPERATIONS

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

Shenzhen Bozone IT Co. Limited

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

Guangzhou Latech Computer Technology Company Limited

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

Jinan Weita Technology Company Limited

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

Chairman's Statement

APTUS HOLDINGS LIMITED – OIL AND GAS OPERATIONS

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

Xin Jiang Oilfield

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

Two new gas pipeline projects

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

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

NATURAL PRODUCTS BUSINESS

During the period, we pared down our natural products business. In April 2006, we announced that we had entered into an agreement to sell off our 20.83% stake in Your Mart Co., Limited ("Your Mart"). Your Mart is a joint venture company engaged in the distribution and retail of consumable goods, including clothing, footwear and electronic equipment in Hunan Province. In August 2006, we announced that we entered into a contract to dispose of our 55% interest in Wuhu Bee & Bee Natural Food Company Limited ("Wuhu Bee & Bee") and 100% interest in Zhuhai Free Trade Zone Bee & Bee Natural Food Company Limited ("Zhuhai Bee & Bee"). The former is engaged in the manufacture and research and development of mead and the latter is a distributor of mead.

Chairman's Statement

FUTURE OUTLOOK AND PROSPECTS

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

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

Regarding natural products, the disposals of Your Mart, Wuhu Bee & Bee and Zhuhai Bee & Bee leave just the sale of birds nest and other natural products at the CVG level and the edible oils trading business at the Aptus level. These operations will reduce in importance as our operations in the China lottery-related sector and the oil and gas related industries gains traction.

On behalf of the Board, I wish to thank all our valued shareholders, customers, business associates and advisors for their invaluable assistance and support. I am confident that the skill and dedication of our staff and with the strong support of our business partners and shareholders that CVG will be able to become a major presence in the China lottery-related industry and Aptus will become a major diversified oil and gas group in future.

Cheung Kwai Lan
Chairman

Hong Kong, 28 September 2006

Management Discussion and Analysis

We aim to become a major presence in the China lottery-related sector and for Aptus Holdings Limited to become a major diversified oil and gas group

FINANCIAL REVIEW

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

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

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

EMPLOYMENT AND REMUNERATION POLICIES

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

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

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

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

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

SIGNIFICANT INVESTMENTS

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

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

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

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

Management Discussion and Analysis

CONTINGENT LIABILITIES

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

CHARGES ON GROUP ASSETS

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

CAPITAL STRUCTURE

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

Directors and Senior Management

DIRECTORS

Executive Directors

Madam CHEUNG Kwai Lan, aged 68, is the Chairman, one of the founders of the Group and an Executive Director. She has served the Group for more than 6 years and is the 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 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 Shanxi Province Tai Yuan (Atomic Energy) Research Institute（山西省太原(原子能)研究所）, which was one of the institutions of the Chinese Academy of Science. She also participated in the research and development of the radioactive material Cobalt 60 for imaging and cancer treatment. She is an Executive Director of Aptus Holdings Limited, an indirect non-wholly owned subsidiary listed on the GEM. She is the mother of Mr. Chan Ting and the spouse of Mr. Chan Tung Mei, both being Executive Directors.

Mr. CHAN Ting, aged 36, is an Executive Director. He has served the Group for more than 4 years and is the director of various subsidiaries of the Group. He is responsible for the marketing and business development 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 working experience in establishing and managing companies in the PRC. He is an Executive Director of Atpus Holdings Limited, an indirect non-wholly owned subsidiary listed on the GEM. He is the son of Madam Cheung Kwai Lan and Mr. Chan Tung Mei, both being Executive Directors. He joined the Group in July 2001.

Mr. CHAN Tung Mei, aged 70, is one of the founders of the Group and an Executive Director. He has served the Group for more than 6 years and is the director of various subsidiaries of the Group. He is responsible for the overall management and operation of the Group. He graduated from Shanxi Industrial University in the PRC and received a bachelor degree in Civil Engineering in August 1960. Mr. Chan Tung Mei has over ten years of experience in establishing and managing companies. He is the father of Mr. Chan Ting and the spouse of Madam Cheung Kwai Lan, both being Executive Directors.

Mr. LAU Hin Kun, aged 47, is an Executive Director. He is a director of certain subsidiaries of the Company and the Finance Manager of Aptus Holdings Limited, an indirect non-wholly owned subsidiary listed on the GEM. He has over twenty years of experience in the banking sector and accounting experience of both Hong Kong and the PRC and he previously worked in Nanyang Commercial Bank, Limited, Charlio International Holdings Limited and Chiyu Banking Corporation Limited. He joined the Group in July 2001.

Directors and Senior Management

Non-executive Director

Mr. SHAW Kyle Arnold Junior, aged 45, is a Non-executive Director. He has served the Group for more than three years. He is a Partner and Managing Director of Shaw Kwei & Partners, a private equity fund manager focused on Asia. He has been involved in Asian private equity since 1986, and has successfully organised and managed Asian private equity funds for two U.S. financial institutions: Security Pacific Bank and Tudor Investment Corp. He has been involved in a variety of investment transactions throughout Asia, including Hong Kong and China. He received a M.B.A. degree from the Wharton School of the University of Pennsylvania and a Bachelor of Science in Commerce, majoring in Finance, from the University of Virginia. He joined the Group in May 2003.

Independent Non-executive Directors

Mr. TIAN He Nian, aged 66, is an Independent Non-executive Director. 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 Aptus Holdings Limited, an indirect non-wholly owned subsidiary listed on the GEM. He joined the Group in November 2004.

Mr. ZHAO Zhi Ming, aged 64, is an Independent Non-executive Director. 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 1965, he had worked for several government authorities of the PRC, such as 天津市政府部門(Tianjin Government), 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, a member of the audit committee and the remuneration committee of Aptus Holdings Limited, an indirect non-wholly owned subsidiary listed on the GEM. He joined the Group in January 2005 and he is also a member of the audit committee and the remuneration committee of the Company.

Mr. TO Yan Ming, Edmond, aged 34, is the Independent Non-executive Director. Mr. To 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. 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 8 years of experience in auditing, accounting, floatation and taxation matters. Mr. To is also an Independent Non-executive Director, a member of the audit committee and the remuneration committee of Aptus Holdings Limited, an indirect non wholly-owned subsidiary of the Company listed on the GEM. Mr. To joined the Group in January 2006 and he is also a member of the audit committee and the remuneration committee of the Company.

Directors and Senior Management

SENIOR MANAGEMENT

Mr. KWAN Yiu Ming, Patrick, aged 41, is the Chief Financial Officer and the qualified accountant of the Group. He has served the Group for more than four years and is the director of a subsidiary of the Group. He holds a bachelor degree of Commerce in Accounting from the Curtin University of Technology in Australia. Mr. Kwan is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He joined the Group in August 2001 and has over ten years of experience in accounting and financial management. He also has over four years of experience in auditing.

Mr. TSUI Wing Tak, aged 37, is the company secretary of the Group. He 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 12 years of experience in auditing, accounting and financing. He is also the company secretary and the qualified accountant of Aptus Holdings Limited, an indirect non-wholly owned subsidiary listed on the GEM. He joined the Group in September 2004.

Mr. FUNG King Him, Daniel, aged 36, is an executive director of Aptus Holdings Limited, an indirect non-wholly owned subsidiary listed on the GEM. He is responsible for business development of Aptus Holdings Limited. 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. He joined the Group in February 2002.

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 GEM Listing Rules, details of which are stated under the heading of "NON-EXECUTIVE DIRECTORS" below, the Company has complied to 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 eight Directors, of whom four are Executive Directors, one is Non-executive Director 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 strategy, 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
Madam Cheung Kwai Lan	29/30
Mr. Chan Tung Mei	23/30
Mr. Chan Ting	29/30
Mr. Lau Hin Kun	12/30
Mr. Shaw Kyle Arnold Junior	10/30
Mr. Tian He Nian	10/30
Mr. Zhao Zhi Ming (appointed on 30 December 2005)	*6/20
Mr. To Yan Ming, Edmond (appointed on 11 January 2006)	**6/19
Mr. Peter Chin Wan Fung (resigned on 25 November 2005)	***5/7
Mr. Du Ying Min (resigned on 30 December 2005)	****5/10
Mr. Tsui Wing Tak (resigned on 11 January 2006)	*****6/11

* For the period from 30 December 2005 to 30 June 2006, only twenty board meetings were held by the Company and Mr. Zhao Zhi Ming attended six meetings.

** For the period from 11 January 2006 to 30 June 2006, only nineteen board meetings were held by the Company and Mr. To Yan Ming, Edmond attended six meetings.

*** For the period from 1 July 2005 to 25 November 2005, only seven board meetings were held by the Company and Mr. Peter Chin Wan Fung attended five meetings.

**** For the period from 1 July 2005 to 30 December 2005, only ten board meetings were held by the Company and Mr. Du Ying Min attended five meetings.

***** For the period from 1 July 2005 to 11 January 2006, only eleven board meetings were held by the Company and Mr. Tsui Wing Tak attended six 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.

The Executive Director, Madam Cheung Kwai Lan is the mother of Mr. Chan Ting and the spouse of Mr. Chan Tung Mei, both being Executive Directors.

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 Non-executive Directors (including Independent Non-executive Directors) are not appointed for specific terms. They are, however, subject to retirement and re-election every three years. The reason for the deviation is that the Company does not believe that arbitrary term limits on Directors' service are appropriate given that Directors ought to be committed to representing the long term interests of the Company's shareholders and the retirement and re-election requirements of Non-executive Directors have given the Company's shareholders the right to approve continuation of Non-executive Directors' offices.

REMUNERATION COMMITTEE

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

The remuneration committee has three members comprising Mr. Chan Ting, Mr. Zhao Zhi Ming and Mr. To Yan Ming, Edmond and is chaired by Mr. Chan Ting.

Corporate Governance Report

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.

The remuneration package for the Executive Directors of the Company comprises a basic salary and a performance-related bonus for their contributions. The Non-executive Directors receive a basic fee for their services. All revision to the remuneration packages for 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 11 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 understand 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 two meetings regarding nomination of Mr. Zhao Zhi Ming and Mr. To Yan Ming, Edmond as Independent Non-executive Directors. Certain Directors of the Company have attended the meetings.

AUDITORS' REMUNERATION

During the year, remuneration paid/payable to auditors for audit services and non-audit services are HK$630,000 and HK$220,000, 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. Tian He Nian, Mr. Zhao Zhi Ming and Mr. To Yan Ming, Edmond.

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

	Attendance
Mr. Tian He Nian	4/4
Mr. Zhao Zhi Ming	*2/2
Mr. To Yan Ming, Edmond (Chairman)	**2/2
Mr. Peter Chin Wan Fung (ex-member)	***2/2
Mr. Du Ying Min (ex-member)	****2/2
Mr. Tsui Wing Tak (ex-Chairman)	*****2/2

* For the period from 30 December 2005 to 30 June 2006, only two audit committee meetings were held by the Company and Mr. Zhao Zhi Ming attended all these two meetings.

** 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 25 November 2005, only two audit committee meetings were held by the Company and Mr. Peter Chin Wan Fung attended all these two meetings.

**** For the period from 1 July 2005 to 30 December 2005, only two audit committee meetings were held by the Company and Mr. Du Ying Min 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.

Directors' Report

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

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed at an Extraordinary General Meeting held on 16 June 2006, the name of the Company was changed from B & B Group Holdings Limited to China Vanguard Group Limited.

PRINCIPAL ACTIVITIES AND ANALYSIS OF OPERATIONS

The Company acts as an investment holding company. The principal activities of its principal subsidiaries and associates are set out in note 37 and note 19 to the consolidated financial statements.

An analysis of the Group's performance for the year by business is set out in note 7 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 30.

An interim dividend of HK0.5 cent, amounting to approximately HK$3,049,000, was paid to the shareholders during the year.

The Directors do not recommend the payment of a cash dividend for 2006 but propose for shareholders' approval at an extraordinary general meeting, the date and time of which to be fixed, a bonus issue of shares on the basis of one bonus share for every two existing shares held and one bonus warrant for every five existing shares held.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 16 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 SCHEMES

Details of movements in the share option schemes 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 pages 32 and 33 of the annual report.

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 88 of the annual report.

Directors' Report

USE OF PROCEEDS

	Planned usage for the period from the Listing Date to 30 June 2006 HK$ million	Re-allocation of proceeds: addition/ (subtraction) HK$ million	Actual usage for the period from the Listing Date to 30 June 2006 HK$ million
Expanding the new production facilities in Zhuhai, the PRC			
(i) purchase of land	1.3	–	1.3
(ii) construction cost	5.5	(3.5)	2
Conducting various research and development programmes to increase the varieties of the Group's products	6.3	(6.1)	0.2
Marketing and promotional activities	3.7	–	3.7
Purchasing new machinery for producing new natural supplementary foods	2.6	(2.6)	0.0
Redemption of the Convertible Notes	14.0	–	14.0
General working capital	1.5	12.2	13.7
Total	34.9	–	34.9

Note: On 18 August 2006, the Group issued a circular in relation to the disposal of interest in Wuhu Bee & Bee Natural Food Company Limited and Zhuhai Free Trade Zone Bee & Bee Natural Food Company Limited (the "subsidiaries"). The subsidiaries are engaged in the manufacturing and distribution of natural supplementary products. Part of the proceeds raised from the Initial Public Offer, as mentioned in the paragraph headed "Statement of Business Objectives" in the prospectus of the Company dated 29 October 2002 was reallocated to the general working capital of the Group.

DIRECTORS

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

Executive Directors

Madam Cheung Kwai Lan
Mr. Chan Tung Mei
Mr. Chan Ting
Mr. Lau Hin Kun

Non-executive Director

Mr. Shaw Kyle Arnold Junior

Independent Non-executive Directors

Mr. Tian He Nian
Mr. Zhao Zhi Ming (Appointed on 30 December 2005)
Mr. To Yan Ming, Edmond (Appointed on 11 January 2006)
Professor Peter Chin Wan Fung (Resigned on 25 November 2005)
Mr. Du Ying Min (Resigned on 30 December 2005)
Mr. Tsui Wing Tak (Resigned on 11 January 2006)

Directors' Report

In accordance with Article 116 of the Articles of Association of the Company (the "Articles"), Madam Cheung Kwai Lan and Mr. Shaw Kyle Arnold Junior retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In accordance with Article 99 of the Articles, Independent Non-executive Directors, Mr. Zhao Zhi Ming and Mr. To Yan Ming, Edmond retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

All of the Executive Directors of the Company except Mr. Lau Hin Kun have entered into service contracts with the Company for a term of three years from 18 October 2002, renewable automatically for successive terms of one year unless terminated by not less than six months' notice in writing served by either party on the other.

Mr. Lau Hin Kun has not entered into any service contract with the Company and he is not appointed for a specific term since he is subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company.

Two Independent Non-executive Directors, Professor Peter Chin Wan Fung and Mr. Du Yin Min, have entered into service contracts with the Company for a term of three years from 18 October 2002. The other Independent Non-executive Directors have not entered into any service contracts with the Company but are subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company.

Each of the Independent Non-executive Directors has confirmed his independence to the Company pursuant to Rule 5.09 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the year ended 30 June 2006 and the Company considers the Independent Non-executive Directors to be independent.

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 period 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

	Company/ Name of associated	Number of Ordinary shares held				
Name of Directors	**corporation**	**Corporate interest**	**Personal interest**	**Family interest**	**Total interest**	**Percentage of interest**
Cheung Kwai Lan	Company	241,130,000 (Note 1)	1,380,000	–	242,510,000	38.86%
Chan Tung Mei	Company	241,130,000 (Note 2)	–	1,380,000 (Note 3)	242,510,000	38.86%
Shaw Kyle Arnold Junior	Company	46,600,000 (Note 4)	–	–	46,600,000	7.47%
Lau Hin Kun	Company	–	450,000	–	450,000	0.07%
Cheung Kwai Lan	Best Frontier Investments Limited	–	909	1 (Note 5)	910	–
Chan Tung Mei	Best Frontier Investments Limited	–	1	909 (Note 6)	910	–

Notes:

1. The 241,130,000 shares are owned by Best Frontier Investments Limited ("Best Frontier") which is owned as to 99.89% and 0.11% by Madam Cheung Kwai Lan and Mr. Chan Tung Mei respectively. 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 the SFO.

Directors' Report

2. The 241,131,000 shares are owned by Best Frontier Investments Limited ("Best Frontier") which is owned as to 99.89% and 0.11% by Madam Cheung Kwai Lan and Mr. Chan Tung Mei respectively. 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 the SFO.

3. The 1,380,000 shares are owned by Madam Cheung Kwai Lan who is the spouse of Mr. Chan Tung Mei. Accordingly, Mr. Chan Tung Mei is deemed to be interested in the shares under the SFO.

4. These shares represent Mr. Shaw Kyle Arnold Junior's interests in:

   (a) 1,030,000 shares beneficially owned by Shaw, Kwei & Partners (Asia) Ltd. of which Mr. Shaw Kyle Arnold Junior is deemed under the SFO to have an interest by reason of his being the indirect controlling shareholder of Shaw, Kwei & Partners (Asia) Ltd. through his controlled corporation Haven Associates Limited.

   (b) 24,620,000 shares beneficially owned by China Value Investment Limited which is wholly-owned by Asian Value Investment Fund L.P. (AVIF, L.P.), a limited liability partnership, whose general partner Shaw, Kwei & Partners (Asia) Ltd. (having a 1% interest in AVIF, L.P.) and its indirect controlling shareholder Mr. Shaw Kyle Arnold Junior are both deemed under the SFO to have interest in the same 24,620,000 shares.

   (c) 20,950,000 shares beneficially owned by Javelin Capital Holdings Limited which is wholly-owned by Asian Value Investment Fund II, L.P. (AVIF II, L.P.), a limited liability partnership, whose general partner SKP Capital Limited (having a 1.19% interest in AVIF II, L.P.) and its indirect controlling shareholder Mr. Shaw Kyle Arnold Junior are both deemed under the SFO to have interest in the same 20,950,000 shares.

5. The 1 share of US$1 in Best Frontier is owned by Mr. Chan Tung Mei who is spouse of Madam Cheung Kwai Lan. Accordingly, Madam Cheung Kwai Lan is deemed to be interested in the shares under the SFO.

6. The 909 shares of US$1 each in Best Frontier are owned by Madam Cheung Kwai Lan who is the spouse of Mr. Chan Tung Mei. Accordingly, Mr. Chan Tung Mei is deemed to be interested in the shares under the SFO.

(2) Share option schemes

Details of the share option schemes adopted by the Company are set out in note 25 to the consolidated financial statements.

Pre-IPO Share Option Scheme

Pursuant to the Pre-IPO share option scheme adopted by the Company on 18 October 2002 ("Pre-IPO Share Option Scheme"), certain Directors had been granted share options to subscribe for shares, detail of which as at 30 June 2006 were as follows:

Name of Director	Date of grant	Exercise price	Outstanding at 1 July 2005	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding at 30 June 2006
Peter Chin Wan Fung*	18/10/2002	0.23	870,000	–	(870,000)	–	–	–

* resigned on 25 November 2005

These share options were granted on 18 October 2002, at an exercise price of HK$0.23 per share, representing 50% of the offer price of HK$0.46 per share in respect of the Company's initial public offering. The share options are exercisable in three equal portions. The respective portions are exercised at any time commencing on 12 May 2003, 12 November 2003 and 12 May 2004 respectively. These share options, if not otherwise exercised, will lapse on 12 October 2007.

The Company has adopted a share option scheme (the "Share Option Scheme"), under which the Board may, at its discretion, invite any persons belonging to any of the following class of participants to take up options to subscribe for the shares in the Company:

(a) any employees (whether full-time or part-time) of the Company, any of its subsidiaries or any entity (the "Invested Entity") in which the Group holds any equity interest, including any Executive Director of the Company, and of such subsidiaries or any Invested Entity;

(b) any Non-executive Directors (including Independent Non-executive Directors) of the Company, any of its subsidiaries or any Invested Entity;

(c) any supplier of goods or services to any member of the Group or any Invested Entity;

(d) any customer of the Group or any Invested Entity;

(e) any person of entity that provide research, development, or other technological support to the Group or any Invested Entity; and

(f) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity.

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

Pursuant to the Share Option Scheme, certain Directors had been granted share options to subscribe for shares, detail of which as at 30 June 2006 were as follows:

Name of Director	Date of grant	Exercise price	Outstanding at 1 July 2005	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at 30 June 2006	Exercise period of share options
Lau Hin Kun	18/8/2004	0.64	1,600,000	–	–	–	1,600,000	19/8/2004 – 17/10/2012
Shaw Kyle Arnold Junior	19/10/2004	0.65	1,200,000	–	–	–	1,200,000	20/10/2004 – 17/10/2012
Total			2,800,000				2,800,000	

Directors' Report

The closing prices of the Company's shares on 18 August 2004 and 19 October 2004, the dates of grant of the share options, were HK$0.64 and HK$0.65, respectively.

During the year, 40,210,000 share options had been granted to certain eligible participants under Share Option Scheme.

The closing price of the Company's shares on 22 March 2006, the date of grant of the share options, was HK$2.9.

The share option cost was calculated based on Black-Scholes Model.

(3) Long positions in the shares of associated corporation – Aptus Holdings Limited

Name of Director	Corporate interest	Personal interest	Family interest	Total interest	Approximate percentage of shareholding
Cheung Kwai Lan (Note)	915,571,428	–	–	915,571,428	54.89%

Note: 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 ("Best Frontier"). Madam Cheung Kwai Lan is the spouse of Mr. Chan Tung Mei. Accordingly, Madam Cheung Kwai Lan is deemed to be 100% interested in the shares of Best Frontier under the SFO. As at 30 June 2006, Best Frontier is interested in approximately 38.86% of the issued share capital of China Vanguard Group Limited which in turn holds 100% shareholding of China Success Enterprises Limited. China Success Enterprises Limited then holds 100% shareholding of Precise Result Profits Limited which directly holds 915,571,428 shares of Aptus Holdings Limited. Besides, Madam Cheung Kwai Lan holds 1,380,000 shares of China Vanguard Group Limited as at 30 June 2006.

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.

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 its 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 Long position	Number of ordinary shares held Short position	Percentage of shareholding
Best Frontier Investments Limited	Directly beneficially owned	241,130,000 (Note 1)	–	38.64%
Oppenheimer Funds, Inc.	Investment manager	110,000,000	–	17.63%
Haven Associates Limited	Controlled corporation	46,600,000 (Note 2)	–	7.47%

Notes:

1. The 241,130,000 shares are owned by Best Frontier Investments Limited which is owned as to 99.89% and 0.11% by Madam Cheung Kwai Lan and Mr. Chan Tung Mei respectively.

2. The 46,600,000 shares represent:

   (a) 1,030,000 shares beneficially owned by Shaw, Kwei & Partners (Asia) Ltd.

   (b) 24,620,000 shares beneficially owned by China Value Investment Limited which is wholly-owned by Asian Value Investment Fund L.P. (AVIF, L.P.), a limited liability partnership, whose general partner Shaw, Kwei & Partners (Asia) Ltd. (having a 1% interest in AVIF, L.P.) and its indirect controlling shareholder Mr. Shaw Kyle Arnold Junior are both deemed under the SFO to have interest in the same 24,620,000 shares.

   (c) 20,950,000 shares beneficially owned by Javelin Capital Holdings Limited which is wholly-owned by Asian Value Investment Fund II, L.P. (AVIF II, L.P.), a limited liability partnership, whose general partner SKP Capital Limited (having a 1.19% interest in AVIF II, L.P.) is deemed under the SFO to have interest in the same 20,950,000 shares.

   (d) Haven Associates Limited is the controlling shareholder of Shaw, Kwei & Partners (Asia) Ltd. and SKP Capital Limited.

Directors' Report

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 corporations 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 58.8% of its entire sales to five customers and sales to the largest customer included therein amounted to approximately 38.1%.

Purchases from the Group's five largest suppliers accounted for approximately 84.9% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 39.5%.

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 five customers or five 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.

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.

Directors' Report

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.

AUDITORS

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

Cheung Kwai Lan
Chairman
Hong Kong, 28 September 2006

Auditors' Report

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W.H. TANG
& PARTNERS
CPA LIMITED

TO THE MEMBERS OF CHINA VANGUARD GROUP LIMITED
(FORMERLY KNOWN AS B & B GROUP HOLDINGS LIMITED)
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Vanguard Group Limited (the "Company") and its subsidiaries (the "Group") on pages 30 to 87 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 consolidated 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	2006 HK$'000	2005 HK$'000
Revenue	8	**81,608**	189,131
Cost of sales		**(55,284)**	(142,875)
Gross profit		**26,324**	46,256
Other revenue	8	**34,282**	5,112
Selling and distribution costs		**(3,718)**	(12,747)
Administrative expenses		**(111,252)**	(18,884)
Gain on disposal of subsidiaries		**–**	6,945
Loss on disposal of an associate		**(13,106)**	–
Loss on disposal of a jointly controlled entity		**–**	(2,789)
Finance costs	9	**(3,005)**	(1,849)
Share of results of associates		**18,830**	17,653
(Loss) profit before income tax	10	**(51,645)**	39,697
Income tax expenses	13	**(6,717)**	(9,086)
(Loss) profit for the year		**(58,362)**	30,611
Attributable to:			
Equity holders of the Company		**(39,908)**	31,685
Minority interests		**(18,454)**	(1,074)
		(58,362)	30,611
(Loss) earnings per share			
Basic	15	**(HK7.47 cents)**	HK6.57 cents
Diluted	15	**(HK7.10 cents)**	HK6.53 cents

Consolidated Balance Sheet

At 30 June 2006

	Notes	2006 HK$'000	2005 HK$'000
Non-current assets			
Property, plant and equipment	16	**17,588**	3,329
Other intangible assets	18	**6,586**	–
Interest in associates	19	**238**	31,081
Goodwill	17	**135,061**	12,230
Deposits made on acquisition of property, plant and equipment		**3,756**	3,779
		163,229	50,419
Current assets			
Inventories	20	**7,436**	5,738
Trade and other receivables and prepayments	21	**90,458**	24,944
Pledged bank deposits		**13,308**	31,761
Bank balances and cash		**244,983**	135,489
		356,185	197,932
Current liabilities			
Trade and other payables	22	**30,459**	20,602
Tax liabilities		**99**	539
Borrowings – due within one year	23	**12,505**	51,722
		43,063	72,863
Net current assets		**313,122**	125,069
Total assets less current liabilities		**476,351**	175,488
Non-current liabilities			
Borrowings	23	**22,500**	4,717
Net assets		**453,851**	170,771
Capital and reserves			
Share capital	24	**6,241**	4,821
Reserves		**391,717**	155,821
Equity attributable to equity holders of the Company		**397,958**	160,642
Minority interests		**55,893**	10,129
Total equity		**453,851**	170,771

The financial statements on pages 30 to 87 were approved and authorized for issue by the board of directors on 28 September 2006 and are signed on its behalf by:

Cheung Kwai Lan
Director

Chan Ting
Director

Consolidated Statement of Changes in Equity

For the year ended 30 June 2006

	Attributable to equity holders of the Company								
	Share capital HK$'000	Share premium HK$'000	Employee share-based compensation reserve HK$'000	Share options reserve HK$'000	Translation reserve HK$'000	Special reserve HK$'000	Retained profits HK$'000	Minority interests HK$'000	Total HK$'000
At 1 July 2004, as originally stated	4,813	80,649	–	–	15	(1)	51,990	–	137,466
Effects of changes in accounting policies (Note 2A)	–	–	–	–	–	–	–	4,824	4,824
At 1 July 2004, as restated	4,813	80,649	–	–	15	(1)	51,990	4,824	142,290
Exchange differences arising from acquisition and disposal of overseas subsidiaries	–	–	–	–	(22)	–	–	–	(22)
Exchange differences arising from translation of financial statements of Singapore operation	–	–	–	–	7	–	–	–	7
Shares issued on exercise of options	8	176	–	–	–	–	–	–	184
Capital contribution from minority interests	–	–	–	–	–	–	–	266	266
Acquisition and disposal of subsidiaries	–	–	–	–	–	–	–	6,113	6,113
Net profit for the year	–	–	–	–	–	–	31,685	(1,074)	30,611
Dividend paid	–	–	–	–	–	–	(8,678)	–	(8,678)
At 30 June 2005 (restated)	4,821	80,825	–	–	–	(1)	74,997	10,129	170,771
At 1 July 2005, as originally stated	4,821	80,825	–	–	–	(1)	74,997	–	160,642
Effects of changes in accounting policies (Note 2A)	–	–	–	–	–	–	–	10,129	10,129

Consolidated Statement of Changes in Equity

For the year ended 30 June 2006

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

Consolidated Cash Flow Statement

For the year ended 30 June 2006

	Note	2006 HK$'000	2005 HK$'000
OPERATING ACTIVITIES			
(Loss) profit before income tax		**(51,645)**	39,697
Adjustment for:			
Interest income		**(1,868)**	(245)
Interest expenses		**3,005**	1,849
Depreciation of property, plant and equipment		**1,428**	1,384
Provision of deposits made on acquisitions of property, plant and equipment		**133**	130
Provision on doubtful debts		**429**	–
Amortization of goodwill		**–**	1,085
Loss on disposal of property, plant and equipment		**387**	36
Impairment of goodwill		**3,361**	–
Share of results of associates		**(18,830)**	(17,653)
Gain on partial disposal of a subsidiary		**(32,349)**	–
Gain on disposal of subsidiaries		**–**	(6,945)
Share of loss of a jointly controlled entity		**–**	53
Loss on disposal of an associate		**13,106**	–
Share option expenses		**39,399**	–
Share award expenses		**36,060**	–
Loss on disposal of a jointly controlled entity		**–**	2,789
Gain on redemption of convertible notes		**–**	(4,319)
Amortization of other intangible assets		**437**	58
Operating cash flows before movements in working capital		**(6,947)**	17,919
Decrease in inventories		**2,476**	286
Increase in trade and other receivables and prepayments		**(9,421)**	(1,709)
(Decrease) increase in trade and other payables		**(15,791)**	6,374
Increase in amount due from a jointly controlled entity		**–**	(873)
Cash (used in) generated from operations		**(29,683)**	21,997
Income tax paid		**(1,956)**	(2,932)
NET CASH (USED IN) FROM OPERATING ACTIVITIES		**(31,639)**	19,065

Consolidated Cash Flow Statement

For the year ended 30 June 2006

	Note	2006 HK$'000	2005 HK$'000
INVESTING ACTIVITIES			
Interest received		**1,842**	245
Purchases of property, plant and equipment		**(5,513)**	(622)
Purchases of other intangible assets		**(1,665)**	–
Deposits paid on acquisition of property, plant and equipment		**–**	(38)
Decrease (increase) in pledged bank deposits		**18,453**	(10,626)
Acquisition of subsidiaries		**–**	5,859
Acquisition of investment in an associate		**(22,887)**	–
Proceeds from disposal of property, plant and equipment		**30**	–
Proceeds from partial disposal of a subsidiary		**32,575**	–
Proceeds from sale of an associate		**24,199**	–
Proceeds from disposal of subsidiaries		**–**	(2,367)
NET CASH FROM (USED IN) INVESTING ACTIVITIES		**47,034**	(7,549)
FINANCING ACTIVITIES			
Interest paid		**(1,590)**	(1,849)
Issue of shares		**140,155**	184
Repayment of convertible notes		**–**	(1,500)
Cash consideration on acquisition of subsidiaries	26	**(23,093)**	–
Dividend paid		**(10,281)**	(8,678)
Net borrowings raised		**3,943**	9,773
Capital contribution from minority interests		**12,791**	266
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**121,925**	(1,804)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**137,320**	9,712
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**105,597**	94,486
Effect of foreign exchange rate changes		**2,066**	(15)
Capital reserve realized on disposal		**–**	1,414
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by			
Bank balances and cash		**244,983**	135,489
Bank overdrafts – secured		**–**	(29,568)
Trust receipt loans – secured		**–**	(324)
		244,983	105,597

Notes to the Consolidated Financial Statements

For the year ended 30 June 2006

1. GENERAL INFORMATION

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"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporation information to the annual report.

The Company was formerly known as B & B Group Holdings Limited. Pursuant to the special resolution passed by the shareholders at the extraordinary general meeting of the Company held on 16 June 2006, the Company changed its name from B & B Group Holdings Limited to China Vanguard Group Limited with effect from 16 June 2006 and the adoption of the new Chinese name "眾彩科技股份有限公司" in place of "中國蜂業集團有限公司" for identification purpose only.

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

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES

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

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.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES – continued

Business combinations – continued

With respect to goodwill previously capitalized on the balance sheet, 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 provisional HKAS 21, goodwill arising on acquisitions prior to 1 July 2005 is treated as a non-monetary foreign currency item. In the current year, the Group acquired some foreign operations, and goodwill arose on the acquisitions 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 such 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 employees and 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 shares option 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

For the year ended 30 June 2006

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ 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. However, there has been no material effect on how the results for the current accounting period are prepared and presented.

Financial assets and financial liabilities other than debt and equity securities

From 1 January 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.

Owner-occupied leasehold interest in land

In the current year, the Group has applied HKAS 17 Leases. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortized over the lease term on a straight-line basis. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment. In the opinion of the directors, the allocation between the land and buildings elements cannot be made reliably.

The application of HKAS 17 has had no financial impact on the results of the Group for current or prior accounting periods.

2A. 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$75,459,000 and there is no material effect on the result for the year ended 30 June 2005.

The cumulative effect of the application of the new HKFRSs on equity as at 1 July 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 July 2004 was increased by approximately HK$4,824,000 from approximately HK$137,466,000 to HK$142,290,000 and that as at 30 June 2005 and 1 July 2005 was increased by HK$10,129,000 from HK$160,642,000 to HK$170,771,000.

3. POTENTIAL IMPACT ARISING ON THE NEW ACCOUNTING STANDARD 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

For the year ended 30 June 2006

4. 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 of the SEHK 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 or associate at the date of acquisition.

For previously capitalized goodwill arising on acquisitions, 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Goodwill – continued

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

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 subsidiaries or associates, the attributable amount of goodwill capitalized is included in the determination of the amount of profit or loss on disposal.

Investment in associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. An additional share of losses is provided for and a liability is recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a Group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

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.

Revenue from the provision of lottery-related hardware and software systems is recognized when the services are rendered.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2006

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

The cost of leasehold improvements is depreciated using the straight line method over the period of the respective leases. Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold land and buildings	Over the leases term but limited to 15 years
Furniture, fixtures and equipment	20%
Motor vehicles	20%
Computer equipment	20%
Plant and machinery	10%

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the income statement.

Impairment losses (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. An 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 standard.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Intangible assets

Intangible assets acquired separately are capitalised at cost and those acquired from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets. Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against the profit in the year in which the expenditure is incurred.

Useful lives of acquired intangible assets are assessed to be either finite or indefinite. Intangible assets with finite useful lives are stated at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets with indefinite useful lives are stated at cost less any subsequent accumulated impairment losses.

Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Intangible assets are tested for impairment annually either individually or at the cash-generating unit level. Useful lives are also examined on an annual basis and, where applicable, adjustments are made on a prospective basis.

As intangible asset is derecognized on disposal or no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of the intangible asset, calculated as the difference between the net disposal proceeds and the carrying amount of the intangible asset, is recognized in the income statement in the year the intangible asset is derecognized.

Patents
Cost incurred on the acquisition of patents are capitalised in the consolidated balance sheet and stated at cost. Patents are not revalued as there is no active market for these assets.

Technical know-how
Acquired technical know-how is stated at cost less amortization and any identified impairment losses.

Computer software in lottery systems
Costs incurred on the acquisition of computer software in lottery systems are capitalized in the consolidated balance sheet at cost less amortization and any identified impairment losses.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2006

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Intangible assets – continued

Research and development expenditures

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognized only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortized on a straight line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development cost is charged to profit or loss in the year in which it is incurred.

Impairment

Intangible assets with indefinite useful lives are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. 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. An impairment loss is recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimated 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.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost, which comprises all costs of purchase and, where applicable other costs that has been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realizable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2006

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

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 recognised shall not be reversed in subsequent periods.

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, loan from a shareholder 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.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

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 of 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 recognised directly in equity is recognized in profit or loss.

For financial liabilities, they are removed from the Group's 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 recognised in profit or loss.

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 substantively 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 negative 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.

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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2006

4. SIGNIFICANT ACCOUNTING POLICIES – continued

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 exchange translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 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 recognised in the exchange 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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2006

4. SIGNIFICANT ACCOUNTING POLICIES – continued

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, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

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 contribute 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.

(b) Share option schemes

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participant 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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2006

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Employee benefits – continued

(c) *Share award scheme*

The Group also grants employees and consultants (but not directors) shares of the Company at nil consideration under its share award scheme. Under the share award scheme, the awarded shares are newly issued at par value. The fair value of the employees' and consultants' services received in exchange for the grant of shares newly issued is recognized as staff costs in the income statement with a corresponding increase in an employee share-based compensation reserve under equity.

Retirement benefit costs

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

Dividends

Dividends proposed or declared after the balance sheet date is not recognized as a liability at the balance sheet date.

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.

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.

Borrowing costs

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

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

Notes to the Consolidated Financial Statements

For the year ended 30 June 2006

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in Note 4, 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.

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 HK$135,061,000. Details of the recoverable amount calculation are disclosed in note 17.

Amortization of other intangible assets

Other intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful lives. The determination of useful lives and residual values involve management's estimation. The Group assesses annually the useful life of other intangible assets and if the expectation differs from the original estimate, such a difference may impact the amortization in the year and the estimate will be changed in the future period.

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 approximately HK$37,084,000 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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2006

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

Share option benefit expenses

The share option benefit expense is 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.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade receivables, 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 asset 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 Renminbi, Hong Kong Dollars and Singaporean Dollars. 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.

7. SEGMENT INFORMATION

a. Business segments

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

Notes to the Consolidated Financial Statements

For the year ended 30 June 2006

7. SEGMENT INFORMATION – continued

a. Business segments – continued

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

7. SEGMENT INFORMATION – continued

a. Business segments – continued

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

Notes to the Consolidated Financial Statements

For the year ended 30 June 2006

7. SEGMENT INFORMATION – continued

a. Business segments – continued

	Year ended 30 June 2005				
	Manufacturing and distribution of natural supplementary products HK$'000	Provision of lottery-related hardware and software systems HK$'000	Sales and distribution of edible oil HK$'000	Mining operation of Xin Jiang Oilfield HK$'000	Total HK$'000
Segment assets	209,267	–	10,517	–	219,784
Unallocated assets					28,567
Total assets					248,351
Segment liabilities	46,397	–	9,656	–	56,053
Unallocated liabilities					21,527
Total liabilities					77,580
Other segment information:					
Depreciation and amortization	796	–	–	–	796
Unallocated depreciation and amortization					588
Capital expenditure					622
Loss on disposal of property, plant and equipment	36	–	–	–	36

7. SEGMENT INFORMATION – continued

b. Geographical market segments

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

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

Notes to the Consolidated Financial Statements

For the year ended 30 June 2006

8. REVENUE AND OTHER REVENUE

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

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

Revenue recognized during the year is as follows:

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

9. FINANCE COSTS

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

10. (LOSS) PROFIT BEFORE INCOME TAX

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

Notes to the Consolidated Financial Statements

For the year ended 30 June 2006

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

Emoluments paid or payable to each of the 11 (2005: 9) 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	**102**	**1,950**	**–**	**2,052**
Chan Ting	**102**	**1,300**	**16**	**1,418**
Chan Tung Mei	**78**	**650**	**–**	**728**
Lau Hin Kun	**74**	**258**	**12**	**344**
Independent Non-executive Directors:				
Professor Peter Chin Wan Fung (Note 1)	**31**	**–**	**–**	**31**
Tian He Nian	**117**	**–**	**–**	**117**
Du Ying Min (Note 2)	**39**	**–**	**–**	**39**
Tsui Wing Tak (Note 3)	**38**	**–**	**–**	**38**
Zhao Zhi Ming (Note 4)	**78**	**–**	**–**	**78**
To Yan Ming, Edmond (Note 5)	**59**	**–**	**–**	**59**
Non-executive Director:				
Shaw Kyle Arnold Junior	**78**	**–**	**–**	**78**
	796	**4,158**	**28**	**4,982**

For the year 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	90	1,950	–	2,040
Chan Ting	96	1,300	12	1,408
Chan Tung Mei	78	650	–	728
Lau Hin Kun	13	274	12	299
Independent Non-executive Directors:				
Professor Peter Chin Wan Fung (Note 1)	78	–	–	78
Tian He Nian	125	–	–	125
Du Ying Min (Note 2)	78	–	–	78
Tsui Wing Tak (Note 3)	96	–	–	96
Non-executive Director:				
Shaw Kyle Arnold Junior	78	–	–	78
	732	4,174	24	4,930

Notes:

1. resigned on 25 November 2005
2. resigned on 30 December 2005
3. resigned on 11 January 2006
4. appointed on 30 December 2005
5. appointed on 11 January 2006

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

(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) individual during the year as follows:

	2006 **HK$'000**	2005 HK$'000
Salaries, allowances and other benefits	**2,133**	1,030
Contributions to retirement benefits scheme	**23**	24
	2,156	1,054

The emoluments fell with the following bands:

	2006 **No. of** **individuals**	2005 No. of individuals
Emoluments bands		
Nil – HK$1,000,000	**1**	2
HK$1,000,001 – HK$1,500,000	**1**	–

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

12. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2006 **HK$'000**	2005 HK$'000
Wages and salaries	**12,492**	8,908
Pension cost – defined contribution plans	**363**	296
	12,855	9,204

Notes to the Consolidated Financial Statements

For the year ended 30 June 2006

13. INCOME TAX EXPENSES

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

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

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

Income tax expenses on overseas profits have been calculated on the estimated assessable profit for the year at the rates of income tax prevailing in Singapore in which the subsidiaries of the Group operate.

13. INCOME TAX EXPENSES – continued

Reconciliation between accounting loss and tax charge at applicable tax rate is as follows:

	2006 **HK$'000**	2005 HK$'000
(Loss) profit before income tax	**(51,645)**	39,697
Tax at the Hong Kong Profits Tax rate of 17.5% (2005: 17.5%)	**(9,038)**	6,947
Tax effect of sharing result of associates	**5,417**	6,572
Tax effect of expenses that are not deductible for tax purposes	**22,531**	2,144
Tax effect of income that is not taxable for tax purposes	**(8,379)**	(4,781)
Tax effect of tax losses not recognized	**1,751**	1,556
Tax effect of utilization of tax losses previously not recognized	**(239)**	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(5,199)**	(3,352)
Tax effect of over-provision in prior years	**(127)**	–
Income tax expenses	**6,717**	9,086

At the balance sheet date, the subsidiaries have unused tax losses of approximately HK$37,084,000 (2005: HK$27,963,000) 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 in 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. Such tax losses have no expiry date.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2006

13. INCOME TAX EXPENSES – continued

The components of unrecognized deductible (taxable) temporary differences are as follows:

	2006 **HK$'000**	2005 HK$'000
Deductible temporary differences:		
Unutilized tax losses	**37,084**	27,963
Other	**6,630**	–
Taxable temporary differences:		
Accelerated tax allowances	**(1,320)**	(168)
Other	**(228)**	–
	42,166	27,795

14. DIVIDENDS

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

The Directors do not recommend the payment of a cash dividend for 2006 but propose for shareholders' approval at an extraordinary general meeting, the date and time of which to be fixed, a bonus issue of shares on the basis of one bonus share for every two existing shares held and one bonus warrant for every five existing shares held.

15. (LOSS) EARNINGS PER SHARE

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

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

Number of shares

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

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16. PROPERTY, PLANT AND EQUIPMENT

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

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

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

17. GOODWILL

	HK$'000
COST	
At 1 July 2004	272
Exchange adjustments	–
Arising on acquisition of subsidiaries	13,305
Disposal of subsidiaries	(272)
At 30 June 2005 and 1 July 2005	13,305
Elimination of accumulated amortization upon the application of HKFRS 3	(1,075)
Arising on acquisition of subsidiaries	126,192
At 30 June 2006	**138,422**
AMORTIZATION	
At 1 July 2004	81
Exchange adjustments	–
Charge for the year	1,085
Eliminated on disposal of subsidiaries	(91)
At 30 June 2005 and 1 July 2005	1,075
Elimination of accumulated amortization upon the application of HKFRS 3	(1,075)
At 30 June 2006	**–**
IMPAIRMENT	
Impairment loss recognized for the year	(3,361)
At 30 June 2006	**(3,361)**
CARRYING VALUES	
At 30 June 2006	**135,061**
At 30 June 2005	12,230

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 ("CGUs") that are expected to benefit from that business combination.

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

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17. GOODWILL – continued

In connection with the impairment test on the goodwill arising from the acquisition of subsidiaries, CNPC Huayou Cu Energy Investment Co. Limited and Shenzhen Bozone IT Co. Limited ("the subsidiaries"), during the year, the management of the Group prepared a profit forecast and a cash flow forecast (the "Forecast") in respect of the subsidiaries. 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 the subsidiaries, the recoverable amount exceeds its carrying amount in the consolidated balance sheet and no impairment is necessary.

18. OTHER INTANGIBLE ASSETS

	Patent	**Computer software in lottery systems**	**Technical know-how**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
COST				
At 1 July 2004, 30 June 2005 and 1 July 2005	–	–	519	519
Acquired on acquisition of subsidiaries	714	4,644	–	5,358
Addition	1,665	–	–	1,665
At 30 June 2006	**2,379**	**4,644**	**519**	**7,542**
AMORTIZATION				
At 1 July 2004	–	–	461	461
Charge for the year	–	–	58	58
At 30 June 2005 and 1 July 2005	–	–	519	519
Charge for the year	–	437	–	437
At 30 June 2006	**–**	**437**	**519**	**956**
CARRYING VALUES				
At 30 June 2006	**2,379**	**4,207**	**–**	**6,586**
At 30 June 2005	–	–	–	–

18. OTHER INTANGIBLE ASSETS – continued

The above intangible assets other than patents have definite useful lives. Such intangible assets are amortized on a straight-line basis over the following periods:

Computer software in lottery systems	5 years
Technical know-how	3 years

The patent is considered by the management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. The patent will not be amortized until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired.

19. INTEREST IN ASSOCIATES

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

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For the year ended 30 June 2006

19. INTEREST IN ASSOCIATES – continued

Name of company	Form of business structure	Place of incorporation/ operation	Class of shares held	Proportion of nominal value of issued share capital held by the Group	Nature of business
Your Mart Co. Limited	Incorporated	PRC	Ordinary	20.83%	Engagement on department store
深圳市博眾技術服務有限公司 (Shenzhen Bozone Technology Services Co. Ltd.)	Incorporated	PRC	Registered capital	24.99%	Provision of lottery-related hardware and software systems

Pursuant to the Promoters' Agreement in set up of Your Mart Co. Limited, the Group will invest a total amount of RMB45,000,000 (approximately HK$42,453,000) by way of cash contribution and will own a 20.83% equity interest in Your Mart Co. Limited. During the year, the interest in Your Mart Co. Limited was disposed of at a consideration of approximately HK$54,275,000. During the year, the Group acquired a 51% stake in Shenzhen Bozone IT Co., Limited which in turn held a 49% stake in 深圳市博眾技術服務有限公司 (Shenzhen Bozone Technology Services Co. Ltd.) which became an associate company of the Group.

20. INVENTORIES

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

All inventories are stated at cost.

21. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

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

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

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

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

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

22. TRADE AND OTHER PAYABLES

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

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For the year ended 30 June 2006

22. TRADE AND OTHER PAYABLES – continued

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

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

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

23. BORROWINGS

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

The Group's borrowings are repayable as follows:

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

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

Notes:

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

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

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

24. SHARE CAPITAL

	Notes	**Number of shares** '000	HK$'000
Authorized:			
At 1 July 2005 and 30 June 2006, shares of HK$0.01 each		20,000,000	200,000
Issued and fully paid:			
At 1 July 2004, shares of HK$0.01 each		481,330	4,813
Shares issued on exercise of options		800	8
At 30 June 2005, shares of HK$0.01 each		482,130	4,821
Issue of shares pursuant to placing and subscription agreement	(a)	68,000	680
Shares issued on exercise of options	(Note 25)	1,070	11
Shares issued on Share Award Scheme	(b)	48,730	488
Shares issued pursuant to sale and purchase agreement	(c)	24,123	241
At 30 June 2006, shares of HK$0.01 each		**624,053**	**6,241**

Notes:

a. On 13 January 2006, 68,000,000 shares of HK$0.01 each were placed to 9 independent investors at a price of HK$2.15 per share from the substantial shareholder, Best Frontier Investments Limited, pursuant to the placing and subscription agreement dated on 12 January 2006.

After completion on placing, the subscription of 68,000,000 new shares of HK$0.01 each in the capital of the Company at the subscription price of HK$2.15 per new share were allotted and issued to Best Frontier Investments Limited on 26 January 2006.

The net proceeds of the subscription amounted to approximately HK$140,000,000 and approximately HK$90,000,000 would be used to expand the business of Shenzhen Bozone IT Co. Limited which is the research and development and application of information technology in the lottery field. The remaining balance of approximately HK$50,000,000 will be applied as general working capital.

b. On 8 July 2005, the Company selected 10 consultants and 1 employee to join the Share Award Scheme at a price of HK$0.74 per share on 48,730,000 shares. The shares would be issued upon the vesting conditions were fulfilled.

c. Pursuant to the sale and purchase agreement, the Company issued 24,122,807 shares at HK$2.9 in order to acquire 51% interest in Shenzhen Bozone IT Co. Limited.

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25. SHARE-BASED PAYMENT TRANSACTIONS

Pre-IPO Share Option Scheme

Pursuant to the Pre-IPO Share Option Scheme adopted by the Company on 18 October 2002, 13 individuals, including three Executive Directors, one Independent Non-executive Director, one consultant and eight employees, have been granted by the Company options to subscribe for an aggregate of 40,000,000 shares in the Company at an exercise price of HK$0.23.

Details of movements during the year in the Company's Pre-IPO Share Option Scheme held by employees (including directors and consultant) are as follows:

Categories of grantees	Date of grant	Exercise price	Number of share options at 1 July 2005	Granted during the year	Exercised during the year	Number of share options at 30 June 2006
		HK$	'000	'000	'000	'000
Director (Note)	18/10/2002	0.23	870	–	(870)	–
Total			870	–	(870)	–

Note: An independent non-executive director, Mr. Peter Chin Wan Fung resigned on 25 November 2005.

Under the terms of the options granted under the Pre-IPO Share Option Scheme, these options can only be exercised by the grantees in the following manner:

Exercisable period	Number of shares that can be exercised under the Pre-IPO Share Option Scheme
12 May 2003 – 17 October 2007	12,333,333
12 November 2003 – 17 October 2007	12,333,333
12 May 2004 – 17 October 2007	12,333,334

Each of the above eligible participants who has been granted options under the Pre-IPO Share Option Scheme has undertaken with the Company, Guotai Junan Capital Limited, Shenyin Wanguo Capital (H.K.) Limited (for itself and on behalf of the underwriters) and the Stock Exchange that for a period of twelve months from the date when trading in the shares first commences on GEM, he or she will not dispose of (or enter into any agreement to dispose of) nor permit the registered holder thereof to dispose of (or enter into any agreement to dispose of) any of his, her or its direct or indirect interest in the shares pursuant to the exercise of the options granted to him or her under the Pre-IPO Share Option Scheme.

25. SHARE-BASED PAYMENT TRANSACTIONS – continued

Pre-IPO Share Option Scheme – continued

The closing price of the shares immediately before the date in which the options were exercised was HK$1.77. The options were exercised in January 2006.

Consideration paid for each grant of an option was HK$1. No charge was recognized in the income statement in respect of the value of options granted.

Share Option Scheme

The Company has adopted a share option scheme (the "Share Option Scheme"), under which the Directors may, at its discretion, invite any persons belonging to any of the following classes of participants, to take up options to subscribe for the shares in the Company:

(a) any employees (whether full-time or part-time) of the Company, any of its subsidiaries or any entity (the "Invested Entity") in which the Group holds any equity interest, including any executive director of the Company, any of such subsidiaries or any Invested Entity;

(b) any Non-executive Directors (including Independent Non-executive Directors) of the Company, any of its subsidiaries or any Invested Entity;

(c) any supplier of goods or services to any member of the Group or any Invested Entity;

(d) any customer of the Group or any Invested Entity;

(e) any person or entity that provides research, development, or other technological support to the Group or any Invested Entity; and

(f) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity.

The Share Option Scheme will remain valid for a period of 10 years commencing from 18 October 2002. The exercise price of the share options is determinable by the Directors, and may not be less than the highest of:

(i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a business day;

(ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and

(iii) the nominal value of a share of the Company.

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25. SHARE-BASED PAYMENT TRANSACTIONS – continued

Share Option Scheme – continued

On 22 March 2006, 40,210,000 share options were granted to 15 eligible participants, which entitled them to subscribe for a total of 40,210,000 ordinary shares of the Company. There were 40,000,000 outstanding share options brought forward from 1 July 2005, out of which 200,000 share options have been exercised. Thus there were a total 80,010,000 share options outstanding as at 30 June 2006.

2006

Categories of grantees	Date of grant	Exercise price HK$	Number of share options at 1 July 2005 '000	Granted during the year '000	Exercised during the year '000	Number of share options at 30 June 2006 '000	Exercise period of share options
Director	18/8/2004	0.64	1,600	–	–	1,600	19/8/2004 – 17/10/2012
Director	19/10/2004	0.65	1,200	–	–	1,200	20/10/2004 – 17/10/2012
Eligible participants	18/8/2004	0.64	37,200	–	(200)	37,000	19/8/2004 – 17/10/2012
Eligible participants	22/3/2006	2.85	–	40,210	–	40,210	22/3/2006 – 22/3/2008
Total			40,000	40,210	(200)	80,010	

The closing prices of the Company's shares on 18 August 2004, 19 October 2004 and 22 March 2006, the dates of grant of the share options, were HK$0.64, HK$0.65 and HK$2.90, respectively.

The exercise in full of the share options would, under the present capital structure of the Company, result in the issue of 80,010,000 additional ordinary shares of the Company at additional share capital of HK$800,100 and share premium of HK$139,282,400.

At 30 June 2006, the number of the shares in respect of which option had been granted and remained outstanding under the scheme was 12.82% (2005: 8.30%) of the shares of the Company in issue at that date.

A nominal consideration of HK$1 is payable on acceptance of each grant. Total consideration received during the year from eligible participants for taking up the options granted amounted to HK$15.

The maximum number of shares of the Company which may be issued upon exercise of all the outstanding options granted and yet to be issued under the Pre-IPO Share Option Scheme, the Share Option Scheme or any other schemes must not, in aggregate, exceed 30% of the shares of the Company in issue from time to time.

25. SHARE-BASED PAYMENT TRANSACTIONS – continued

The maximum number of shares which may be granted under the Pre-IPO Share Option Scheme of the Company must not exceed 40,000,000 shares, being 10% of the issued share capital as at the listing of the Company's shares on GEM on 12 November 2002.

The maximum number of shares issued and to be issued on the exercise of options granted and to be granted to each eligible participant (included both exercised and outstanding options) in any 12-month period must not exceed 1% of the total issued share capital of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholder's approval in a general meeting.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

2005

Categories of grantees	Date of grant	Exercise price HK$	Number of share options at 1 July 2004 '000	Granted during the year '000	Exercised during the year '000	Number of share options at 30 June 2005 '000	Exercise period of share options
Director	18/8/2004	0.64	–	1,600	–	1,600	19/8/2004 – 17/10/2012
Director	19/10/2004	0.65	–	1,200	–	1,200	20/10/2004 – 17/10/2012
Eligible participants	18/8/2004	0.64	–	37,200	–	37,200	19/8/2004 – 17/10/2012
Total			–	40,000	–	40,000	

During the year ended 30 June 2006, options were granted on 22 March 2006. The estimated fair value of the options granted is approximately HK$34,208,000.

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

Share price on grant date	HK$2.90
Exercise price	HK$2.85
Expected volatility	83.83%
Expected life	2 years
Risk-free rate	4%
Expected dividend yield	0.69%

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25. SHARE-BASED PAYMENT TRANSACTIONS – continued

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 2 years. 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 rate represents the yields to maturity of respective Hong Kong Exchange Fund Note as at 22 March 2006.

The Group recognized the total expenses of approximately HK$16,192,000 for the year ended 30 June 2006 (2005: Nil) in relation to share options granted by the Company.

In addition, the Group recognized share option expenses of its subsidiary, Aptus Holdings Limited of approximately HK$23,207,000 into the consolidated income statement.

26. ACQUISITION OF SUBSIDIARIES

During the year, the Group acquired 70% equity interest in Huayou Cu (via Aptus Holdings Limited) and Shenzhen Bozone IT Co. Ltd. and its subsidiaries and an associate ("Bozone") at a consideration of approximately HK$29,000,000 and HK$101,726,000, respectively. For the acquisition of Huayou Cu, the Group has paid cash consideration of HK$5,000,000 and issued 20,000,000 ordinary shares of its subsidiary, Aptus Holdings Limited ("Aptus") of HK$0.01 per share for the acquisition. The closing price of Aptus share as at 11 January 2006, the completion date of the transaction was HK$1.20 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 minority interest and considered as the capital contributed by minority interest 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 as of the balance sheet date.

For the acquisition of Bozone, the Group has paid cash consideration of approximately HK$31,770,000 and issued 24,122,807 ordinary shares of the Company of HK$0.01 per share for the acquisition. The closing price of the Company's share as at 22 March 2006, the completion date of the transaction was HK$2.90 and non-cash consideration of approximately HK$69,956,000 for this acquisition transaction was resulted.

26. ACQUISITION OF SUBSIDIARIES – continued

The net assets were stated as follows:

	Bozone HK$'000	Huayou Cu HK$'000	Total HK$'000
Property, plant and equipment	10,394	127	10,521
Technical know-how	5,358	–	5,358
Investment in an associate	238	–	238
Inventories	4,174	–	4,174
Trade receivables	10,414	–	10,414
Deposits and prepayments	3,407	11,856	15,263
Amount due from shareholders	743	–	743
Bank balances and cash	13,658	19	13,677
Trade payables	(3,745)	–	(3,745)
Amount due to a director	(4,036)	–	(4,036)
Amount due to shareholders	(807)	–	(807)
Taxation	(189)	–	(189)
Bank loan	(3,544)	–	(3,544)
Other loan	(971)	–	(971)
Accruals and other payable	(15,033)	(612)	(15,645)
Minority interests	(12,766)	(38,151)	(50,917)
	7,295	(26,761)	(19,466)
Acquisition on goodwill	94,431	31,761	126,192
Total consideration	101,726	5,000	106,726
		(Note)	
Satisfied by:			
Cash consideration	31,770	5,000	36,770
Shares allotted	69,956	–	69,956
	101,726	5,000	106,726
Net cash outflow arising on acquisition:			
Cash consideration	(31,770)	(5,000)	(36,770)
Bank and cash acquired	13,658	19	13,677
Net outflow of cash and cash equivalent in respect of the acquisition of subsidiaries	(18,112)	(4,981)	(23,093)

Note : Consideration for acquisition of Huayou Cu was included the allotment of 20,000,000 ordinary shares in Aptus Holdings Limited of HK$0.01 par values. Fair value of the shares allotted at the acquisition date was HK$1.20.

The acquirees' 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 of approximately HK$463,000 between the date of acquisition and the balance sheet date.

Shenzhen Bozone IT Co. Limited contributed approximately HK$10,854,000 revenue and HK$1,501,000 to the Group's loss before income tax for the period between the date of acquisition and the balance sheet date.

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27. CONTINGENT LIABILITIES

The Company provided corporate guarantees to the extent of approximately HK$42,500,000 (2005: HK$66,538,000) to banks and financial institution to secure general banking facilities granted to certain subsidiaries.

The total facilities utilized by the Group at 30 June 2006 amounted to approximately HK$26,578,000 (2005: HK$56,439,000).

28. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2006 **HK$'000**	2005 HK$'000
Within one year	**1,824**	693
In the second to fifth year inclusive	**41**	26
	1,865	719

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for the terms ranging from one year to three years.

29. CAPITAL COMMITMENTS

	2006 **HK$'000**	2005 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment		
– authorized but not contracted for	**–**	18,981
– contracted for but not provided in the financial statements	**559**	20,019
	559	39,000
Capital expenditure in respect of the acquisition of joint stock limited company and subsidiary		
– authorized but not contracted for	**37,768**	–
– contracted for but not provided in the financial statements	**–**	22,453
	38,327	61,453

30. 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 consolidated income statement represents contributions payable to the MPF Scheme by the Group at rates specified in the rules of the MPF Scheme.

The total cost charged to the consolidated income statement of HK$207,000 (2005: HK$148,000) represents contributions payable to the MPF Scheme in respect of the current accounting year.

The employees employed in the PRC subsidiaries are members of the state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

The employees employed in the Singapore subsidiary are members of the Central Provident Fund Scheme. The Singapore subsidiary is required to contribute pension, based on a certain percentage of their payroll, to the Central Provident Fund Scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

31. 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.

The Group had no significant provision for long service payments at 30 June 2006 (2005: Nil).

32. PLEDGE OF ASSETS

At 30 June 2006, the Group has pledged its bank deposits of approximately HK$13,308,000 (2005: HK$31,761,000) and leasehold property at net book value of approximately HK$5,918,000 (2005: HK$Nil) approximately as securities for the general banking facilities granted to the Group.

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For the year ended 30 June 2006

33. EVENTS AFTER THE BALANCE SHEET DATE

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

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

Besides, subsequent to the balance sheet date, on 18 August 2006, the Group issued a circular (the"Circular") to the shareholders of the Company in relation to a major transaction. According to the Circular, the Group disposed 55% equity interest of Wuhu Bee & Bee Natural Food Company Limited and 100% equity interest of Zhuhai Free Trade Zone Bee & Bee Natural Food Company Limited to an independent third party at a price of HK$76,000,000 in cash. The Group intends to place the net proceeds from the disposals of subsidiaries in short term deposits with financial institution or licensed banks in Hong Kong. On 4 September 2006, the shareholders approved the disposals of subsidiaries in the extraordinary general meeting.

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34. SHARE AWARD SCHEME

On 24 January 2005, the Company adopted a share award scheme for employees and consultants, excluding executive directors and chief executive, of the Group for the purpose of recognizing 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. Under the scheme, following the making of an award to employees and consultants, the relevant newly issued shares vest over a period of time provided that the employees and consultants continue to contribute to the Group at the relevant time and satisfies any other conditions specified at the time the award is made. The maximum aggregate number of shares that can be awarded under the scheme is limited to 20% of the issued share capital of the Company and no cash consideration should be paid for the shares allotted under the share award scheme.

A summary of movements in shares held under the share award scheme during the year is as follows:

	2006 Number of shares '000	2005 Number of shares '000
Beginning of year	**–**	–
Shares granted during the year	**48,730**	–
Awards of vested shares to employees and consultants	**(48,730)**	–
End of year	**–**	–

	2006 HK$'000	2005 HK$'000
Fair value of shares held as at 30 June	**N/A**	N/A
Fair value of shares awarded to employees and consultants during the year	**36,060**	–
Amounts recognized in the consolidated balance sheet as prepaid expenses	**–**	–
Amounts recognized in the consolidated income statement as staff cost	**36,060**	–

The fair value of shares under the share award scheme is measured by the last 14 days of trading average of the quoted market price of the Shares on the Stock Exchange before the date of grant.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2006

35. COMPARATIVE FIGURES

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

36. RELATED PARTY TRANSACTIONS

Compensation of directors and key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2006 **HK$'000**	2005 HK$'000
Short-term benefits	**8,486**	6,613
Post-employment benefits	**84**	71
	8,570	6,684

The remuneration of directors and key management personnel is determined by the remuneration committee having regard to the performance of individuals and market trends.

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the subsidiaries at 30 June 2006 are as follows:

Name of company	Place of incorporation/ operation	Class of shares held/ Issued and fully paid up shares/ registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Precise Result Profits Limited	British Virgin Islands	Ordinary share US$1	–	100%	Investment holding
Aptus Holdings Limited	Cayman Islands	Ordinary shares HK$16,681,414	–	54.89%	Investment holding
China Success Enterprises Limited	British Virgin Islands	Ordinary shares US$2,000	100%	–	Investment holding
Loyalion Limited	Hong Kong	Ordinary shares HK$1,000	–	100%	Distribution of natural supplementary products and investment holding

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY – continued

Name of company	Place of incorporation/ operation	Class of shares held/ Issued and fully paid up shares/ registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Wuhu Bee & Bee Natural Food Company Limited#	PRC	Registered capital US$1,000,000	–	55%	Manufacture and distribution of natural supplementary products
Zhuhai Free Trade Zone Bee & Bee Natural Food Company Limited#	PRC	Registered capital HK$1,000,000	–	100%	Distribution of natural supplementary products
B & B International Marketing (HK) Limited	Hong Kong	Ordinary shares HK$2	–	100%	Distribution of natural supplementary products
B & B International Marketing Limited	British Virgin Islands	Ordinary share US$1	–	100%	Investment holding
B & B Winery Limited	Hong Kong	Ordinary shares HK$1,000	–	100%	Investment holding
B & B Enterprises Limited	Hong Kong	Ordinary shares HK$100	–	100%	Investment holding
Natural Lives Company Limited	Hong Kong	Ordinary shares HK$500,000	–	60%	Distribution of natural supplementary products
B & B Bio-Products Limited	British Virgin Islands	Ordinary share US$1	–	100%	Investment holding
B & B Group Holdings Limited (Formerly known as High Faith (China) Limited)	Hong Kong	Ordinary share HK$1	–	100%	Investment holding
Rain International Company Limited	Hong Kong	Ordinary shares HK$1,000,000	–	100%	Investment holding

Notes to the Consolidated Financial Statements

For the year ended 30 June 2006

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY – continued

Name of company	Place of incorporation/ operation	Class of shares held/ Issued and fully paid up shares/ registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
La Cucina Italian (Macau) Limited**	Macau	Share capital MOP$25,000	–	60%	Restaurant and import and export of correspondent products
Step Gain Limited **	British Virgin Islands	Ordinary shares US$10	–	60%	Investment holding
雙遼市步得秸稈科技有限公司***# (Shuang Liao City Step Gain Technology Limited†)	PRC	Registered capital HK$1,600,000	–	60%	Animal feed (玉米秸飼料、複合肥料、作物秸稈)
Greatest Luck Limited**	British Virgin Islands	Ordinary share US$1	–	100%	Investment holding
深圳生港蜂業有限公司***# (B & B (Shenzhen) Limited†)	PRC	Registered capital US$4,000,000	100%	–	Investment holding
廣州樂得瑞計算機技術有限公司***# (Guangzhou Latech Computer Technology Co. Limited†)	PRC	Registered capital RMB6,060,000	–	50.5%	Provision of lottery-related hardware and software systems
Ace Bingo Group Limited **	British Virgin Islands	Ordinary share US$1	–	100%	Investment holding
Cheerfull Group Holdings Limited*	British Virgin Islands	Ordinary share US$50,000	–	51%	Investment holding

Notes to the Consolidated Financial Statements

For the year ended 30 June 2006

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY – continued

Name of company	Place of incorporation/ operation	Class of shares held/ Issued and fully paid up shares/ registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
深圳市博眾信息技術有限公司*# (Shenzhen Bozone IT Co. Limited†)	PRC	Registered capital RMB10,000,000	–	51%	Provision of lottery-related hardware and software systems
深圳市龍江風采信息技術有限公司*# (Shenzhen Longjiang Fengcai IT Co. Limited†)	PRC	Registered capital RMB1,000,000	–	50.49%	Provision of lottery-related hardware and software systems
哈爾濱市龍江風采信息科技有限公司*# (Harbin Longjiang Fengcai Technology Co. Limited†)	PRC	Registered capital RMB500,000	–	33.15%	Provision of lottery-related hardware and software systems
深圳市博眾移動技術有限公司*# (Shenzhen Bozone Mobile Technology IT Co. Limited†)	PRC	Registered capital RMB1,000,000	–	35.7%	Provision of lottery-related hardware and software systems
濟南威塔科技有限公司*# (Jinan Weita Technology Co. Limited†)	PRC	Registered capital RMB1,000,000	–	22.49%	Provision of lottery-related hardware and software systems

\# The statutory financial year end date of these subsidiaries is 31 December

** Subsidiaries newly established during the year

* Subsidiaries acquired during the year

† For identification only

Financial Summary

RESULTS

	For the year ended 30 June				
	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**81,608**	189,131	192,971	88,337	62,850
Cost of sales	**(55,284)**	(142,875)	(141,394)	(54,913)	(40,968)
Gross profit	**26,324**	46,256	51,577	33,424	21,882
Other revenue	**34,282**	5,112	167	536	152
Selling and distribution costs	**(3,718)**	(12,747)	(8,865)	(7,600)	(3,746)
Administrative expenses	**(111,252)**	(18,884)	(11,050)	(6,519)	(2,873)
(Loss) gain on disposal of subsidiaries and an associate	**(13,106)**	6,945	–	–	–
Loss on disposal of a jointly controlled entity	**–**	(2,789)	–	–	–
Finance costs	**(3,005)**	(1,849)	(691)	(1,569)	(1,072)
Share of results of an associate	**18,830**	17,653	–	–	–
(Loss) profit before income tax	**(51,645)**	39,697	31,138	18,272	14,343
Income tax expenses	**(6,717)**	(9,086)	(1,861)	69	(368)
(Loss) profit for the year	**(58,362)**	30,611	29,277	18,341	13,975

ASSETS AND LIABILITIES

	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**519,414**	248,351	187,222	85,464	41,451
Total liabilities	**(65,563)**	(77,580)	(44,932)	(16,627)	(23,943)
Net assets	**453,851**	170,771	142,290	68,837	17,508
Equity attributable equity holders of the parent	**397,958**	160,642	137,466	64,510	13,622
Minority interests	**55,893**	10,129	4,824	4,327	3,886
Total equity	**453,851**	170,771	142,290	68,837	17,508

Notes:

1. The Company was incorporated in Cayman Islands on 11 December 2001 and became the holding company of the Group with effect from 18 December 2001 upon completion of the Group Reorganization as set out in the Company's prospectus dated 29 October 2002.
2. The results of the Group for the year ended 30 June 2002 and the balance sheet of the Group as at 30 June 2002 have been prepared on a merger basis and are extracted from the Company prospectus dated 29 October 2002.
3. The results of the Group for the years ended 30 June 2005 and 2006 are those set out on page 30 of the financial statements.