



眾彩科技股份有限公司*
CHINA VANGUARD GROUP LTD.

(incorporated in the Cayman Islands with limited liability)

Stock code : 8156

ANNUAL REPORT 2007



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

This report, for which the board of directors of China Vanguard Group Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Madam CHEUNG Kwai Lan (*Chairman*)
Mr. CHAN Tung Mei
Mr. CHAN Ting
Mr. LAU Hin Kun

Independent Non-executive Directors

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

AUDIT COMMITTEE

Mr. TO Yan Ming, Edmond (*Chairman*)
Mr. TIAN He Nian
Mr. ZHAO Zhi Ming

REMUNERATION COMMITTEE

Mr. CHAN Ting (*Chairman*)
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. KWAN Yiu Ming, Patrick *FCCA FCPA*

QUALIFIED ACCOUNTANT

Mr. KWAN Yiu Ming, Patrick *FCCA FCPA*

COMPANY WEBSITE

www.cvg.com.hk

STOCK CODE

8156

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 Dundell Street
Central
Hong Kong

REGISTERED OFFICE

Cricket Square
Hutchins Drive, P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 2201, 22nd Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

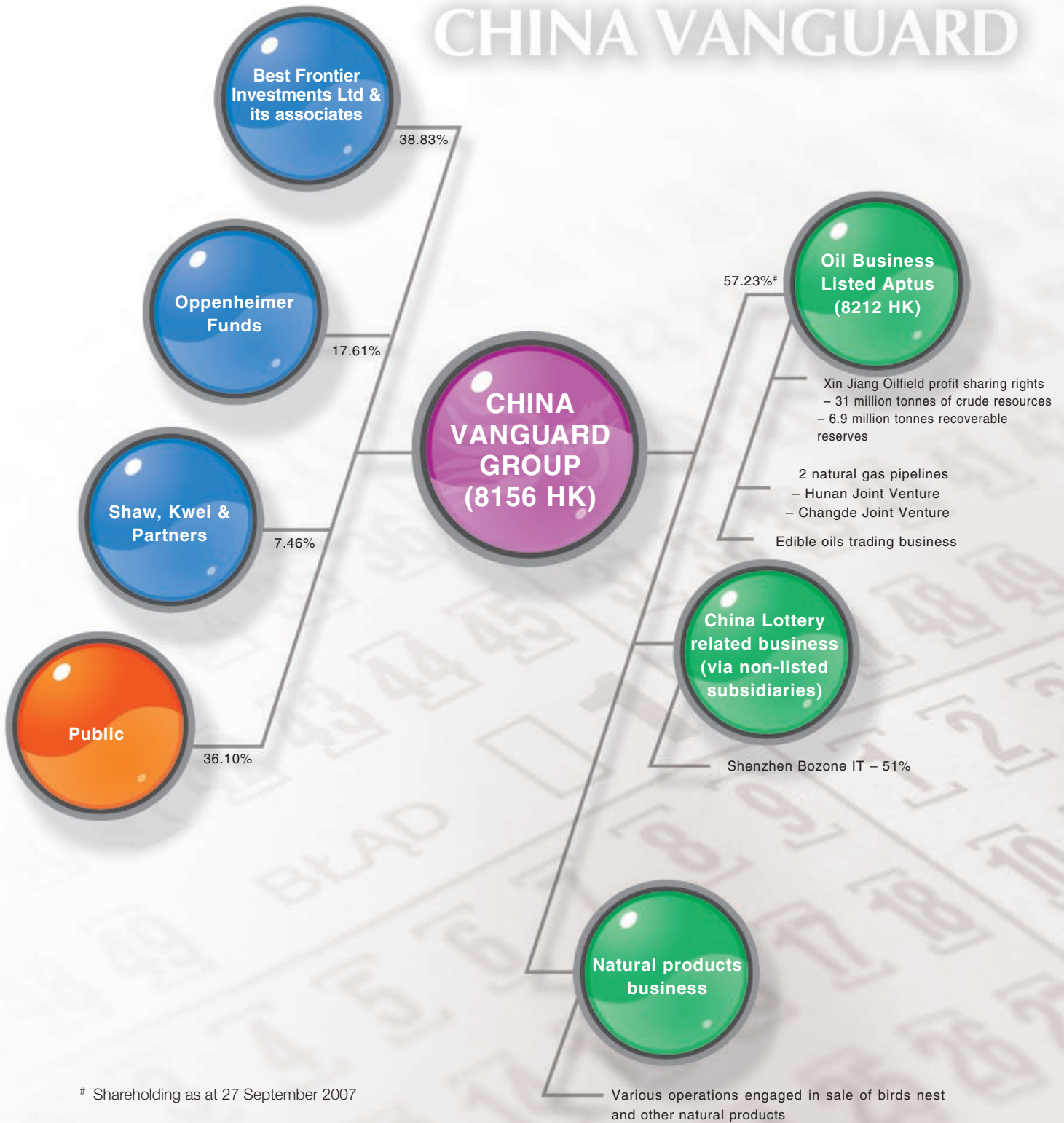
SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Standard Limited

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

Corporate Structure

CHINA VANGUARD



Shareholding as at 27 September 2007



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 (the "Company"), I herein present the results of the Company and its subsidiaries (the "Group") for the year ended 30 June 2007.

DEVELOPMENTS

In the past financial year, the Group has put in tremendous effort to enhance the growth of our presence in the China lottery related sectors and in the oil and gas related industries through our listed subsidiary Aptus Holdings Limited ("Aptus").

On the China lottery-related side, we have put in additional resources on research and development in our subsidiary Shenzhen Bozone IT Co. Limited ("Bozone") and its subsidiaries ("Bozone Group") to enhance the existing technology and develop new games and other value-added services. Bozone Group has signed an exclusive contract during the year with the Welfare Lottery Centre in the province of Zhejiang to provide hardware, software and other consulting services in this province.



Leading Integrated Provider of
Specialized China Lottery related
Support Services



On the oil related industries side, our 57.23% owned subsidiary Aptus completed capital injections into two natural gas related projects in Hunan Province in February of 2007. Business has commenced for the Hunan Joint Venture in the later part of 2006 and the Changde Joint Venture has already been in operation a few years prior to the acquisition. In the Xin Jiang Oilfield, although commercial production and sales has not yet commenced, in tests we have performed, crude has flowed successfully from the wells giving positive results. We are anticipating commercial production to commence in fiscal 2008. During the period, Aptus continued to work closely with the China

Huayou Group Corporation (“Huayou”) as 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.

Chairman's Statement

CHINA LOTTERY-RELATED OPERATIONS

During the year, management worked hard on solidifying the Company's lottery operations. With this foundation in place, the Company is now better positioned to grasp opportunities in the fast growing China lottery-related industries.

Through our subsidiary Shenzhen Bozone IT Co. Limited ("Bozone") and its subsidiaries ("Bozone Group"), our lottery business includes software development for large scale computer lottery sales systems, integration of network systems, network security solutions, research, development and manufacturing of computer lottery terminals, and lottery operation solutions and services.

During the year under review, we have strengthened the technology, management team and capital base of the lottery operations. We believe Bozone has emerged as one of the most competitive professional providers of technology, products and operation services in the China Welfare Lottery sector. During this financial year Bozone signed an exclusive service contract with the Zhejiang Welfare Lottery Centre in respect of its core sales system and 4,400 Point of Sales ("POS") machines, marking a significant breakthrough for our lottery operations.

Bozone's business is growing rapidly. In 2006, Bozone assisted its customers to achieve remarkable results by providing secure and reliable system operation services, technical support and in some areas investment cooperation in POS equipment. Bozone and the Shenzhen Welfare Lottery Centre signed a contract in respect of developing and maintaining its core sales system, which we believe helped contribute to an increase of 43.95% in sales in Shenzhen in 2006. Meanwhile our contract with Heilongjiang Welfare Lottery Centre for its core sales system and 6,500 POS machines also achieved an annual sales volume of RMB2.36 billion.

APTUS HOLDINGS LIMITED – OIL AND GAS OPERATIONS

During the year, Aptus management has continued to work on developing and expanding its presence in the oil and gas related industries in the regions of the PRC.

Xin Jiang Oilfield

We are pleased to report that as of the time of this writing, in tests we have performed crude has flowed successfully from these wells. We will continue our efforts to get the oilfield into commercial operation by the end of fiscal 2008.

Hunan and Changde Joint Ventures

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. Capital injections were completed in February of 2007 and on the same month obtained the certificates of approval for the change in shareholding structure and the subsequent updated business licenses.

Chairman's Statement

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 Changde Joint Venture constructs and operates the last mile pipeline distribution network to residential, commercial and industrial customers in Changde City. Approximately 11km of pipelines were completed during the period from one of the gas stations in Changde City to an industrial customer. Residential pipeline construction is ahead of schedule as the market development in the area has been much faster than anticipated. Contracts with industrial users are being negotiated at the time of the writing of this report; the signing of these contracts would significantly increase the sales for natural gas. We are confident that with these developments that this joint venture will be able to bring to the Group notable profits in future.

NATURAL PRODUCTS BUSINESS

On 7 September 2006, the Group has completed the disposal of our 55% interest in Wuhu Bee & Bee Natural Food Company Limited and 100% interest in Zhuhai Free Trade Zone Bee & Bee Natural Food Company Limited. The disposal allowed the Group to focus its resources on investments in research and development and application of information technology in the lottery field, and the oil and gas business in the PRC which management believe have better earnings potential.

FUTURE OUTLOOK AND PROSPECTS

Via Bozone, the Company 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 the PRC lottery sector. It is our objective this year to continue building on our existing products and further develop in the area of POS machines as well as to continue to expand geographically.

At Aptus, we will concentrate on scaling up the production at the Xin Jiang Oilfield and the two natural gas joint ventures in the Hunan province. We believe the 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, in addition to the two aforementioned natural gas related projects the Group will continue to explore more opportunities 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 will continue to seek out every opportunity to expand further.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to thank all our valued shareholders, customers, business associates, advisors and our management and staff for their invaluable assistance and support during the year.

Cheung Kwai Lan
Chairman

Hong Kong, 27 September 2007

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

The Group recorded a turnover of HK\$91.46 million and loss attributable to the shareholders of approximately HK\$72.52 million for the year ended 30 June 2007. 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 2007, predominantly reflect the revenues from the lottery-related business and edible oil trading businesses. We are pleased to announce that our 51%-owned China lottery-related company, Bozone, has made a contribution to our results of HK\$28.28 million in revenue and HK\$9.51 million in segmental results for the year.

The Group's turnover of HK\$91.46 million represented HK\$28.28 million of revenues from the lottery-related division, sales of edible oil products of HK\$42.91 million, gas related revenue shared from the Changde Joint Venture and the Hunan Joint Venture of HK\$14.74 million, and revenue of HK\$5.53 million from the sale of natural products and others. Segment result of profit of HK\$9.51 million, segment result of profit of HK\$0.12 million, segment result of loss of HK\$1.92 million, segment result of loss of HK\$0.86 million and segment result of loss of HK\$1.19 million were recorded in the Group's lottery division, edible oil trading sector, natural gas joint ventures, natural products and others divisions and oil mining respectively.

Management Discussion and Analysis



Overall revenue for the Group, was HK\$91.46 million against HK\$81.61 million previously. The Group recorded a net loss attributable to shareholders after minorities of HK\$72.52 million for the year ended 30 June 2007 against a net loss of HK\$39.91 million for the previous corresponding period. HK\$96.60 million of the HK\$103.48 million loss before minorities is non-recurrent as follows:

- (i) Share option expenses of HK\$83.3 million (a non-cash item) is recognized in the current year. Based on the existing options in issue, there is only circa HK\$8.6 million (including the share option expenses of Aptus) in such expenses to be written off over the coming fiscal year; and
- (ii) HK\$13.3 million in legal and professional fees related to the investment in Changde Joint Venture and Hunan Joint Venture.

This year's loss increased by HK\$32.61 million compared to the previous corresponding year, the increase can be explained almost entirely as follows: (i) a HK\$43.9 million increase in share option expenses, HK\$83.3 million this period against HK\$39.40 million previously, (ii) the HK\$13.3 million charge for legal and professional fees as mention previously, (iii) the maiden HK\$19.9 million expenses for imputed finance charges associated with the convertible bond issued by Aptus and (iv) no share award expenses this period against HK\$36.06 million previously.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2007, shareholders' funds amounted to approximately HK\$438,205,000 (2006: HK\$453,851,000). Current assets amounted to approximately HK\$306,294,000 (2006: HK\$356,185,000), mainly comprising of cash and bank deposits. The Group had current liabilities amounting to approximately HK\$64,567,000 (2006: HK\$43,063,000), mainly its trade and other payables and bank borrowings. The Group's bank borrowings amounted to approximately HK\$74,671,000 (2006: HK\$4,078,000) for the year ended 30 June 2007. The Group financed its operations primarily with internally generated cash flows and banking facilities granted by banks. The net asset value per share of the Company was approximately HK\$0.47 (2006: HK\$0.48 (restated due to issue of bonus shares)). The gearing ratio was 14.73% (2006: 9.49%) on the basis of current liabilities divided by shareholders' funds.

Management Discussion and Analysis

EMPLOYMENT AND REMUNERATION POLICIES

As at 30 June 2007, the Group employed 25 staff in Hong Kong, 2 staff in Singapore and 87 staff in the PRC. Staff costs excluding directors' remuneration amounted to approximately HK\$14,309,000 (2006: HK\$7,873,000). 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.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

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

CONVERTIBLE BONDS

On 22 November 2006 the Company's non wholly-owned subsidiary, Aptus Holdings Limited ("Aptus"), issued convertible bonds due on 21 November 2011 with a principal amount of HK\$234,000,000, which is interest-bearing at 5% per annum from and including 21 May 2008. The convertible bonds were issued for the purpose of the acquisition of a 48.33% equity interest in Changde Huayou Gas Co. Ltd. ("Changde Joint Venture"), 33% equity interest in the Hunan Huayou Natural Gas Transportation & Distribution Company Limited ("Hunan Joint Venture") and general working capital purposes.

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

The holder(s) of the convertible bonds may exercise the right at any time from 1 January 2007 up to close of business on 11 November 2011 or, if the convertible bonds shall have been called for redemption before 21 November 2011, up to the close of business on a date no later than 7 business days prior to the date fixed for redemption thereof. The initial conversion price will be HK\$2.40 per Aptus share, subject to adjustment upon occurrence of certain prescribed dilution events.

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

Unless previously redeemed, converted or purchased and cancelled, the convertible bonds will be redeemed at 150.15% of their principal amount on 21 November 2011.

The fair value of the liability component of the convertible bonds is estimated by computing the present value of all future cash flow discounted using prevailing market rate of interest for similar instrument with a similar credit rating and with consideration of the convertible bonds. The residual amount, representing the value of the equity component, is credited to Aptus' reserve account.

Management Discussion and Analysis

SIGNIFICANT INVESTMENT

For the year ended 30 June 2007, the Group did not have any significant investments.

MATERIAL ACQUISITION AND DISPOSALS OF SUBSIDIARIES

For the year ended 30 June 2007, the Group has completed the acquisition of 48.33% equity interest in Changde Joint Venture and of 33% equity interest in Hunan Joint Venture. In February 2007, the certificates of approval for Aptus' investment in Changde Joint Venture and Hunan Joint Venture and the updated business licenses of these two Joint Ventures were obtained.

On 7 September 2006, the Group has completed the disposal of our 55% interest in Wuhu Bee & Bee Natural Food Company Limited and 100% interest in Zhuhai Free Trade Zone Bee & Bee Natural Food Company Limited. During the year, the Group also disposed Guangzhou Latech Computer Technology Company Limited, Jinan Weita Technology Company Limited and La Cucina Italian (Macau) Limited to streamline the business of the Group.

CONTINGENT LIABILITIES

As at 30 June 2007, the Group had no contingent liabilities.

CHARGES ON GROUP ASSETS

As at 30 June 2007, the Group has pledged its bank deposits of approximately HK\$5,000,000 (30 June 2006: HK\$13,308,000) and leasehold property at net book value of approximately HK\$5,834,000 (30 June 2006: HK\$5,918,000) to banks to secure the general banking facilities granted to the Group.

In addition, borrowings of approximately HK\$54,232,000 has been secured by a gas network of a jointly controlled entity, Hunan Joint Venture.

As at 30 June 2007 the 100% of the issued share capital of Good United Management Limited ("GUM"), a wholly-owned subsidiary of the Company's non wholly-owned subsidiary, Aptus Holdings Limited ("Aptus"), was pledged in favour of the holder(s) of the convertible bonds issued by Aptus on 22 November 2006. GUM held 70% equity interests in CNPC Huayou Cu Energy Investment Co., Limited, which owned profit sharing rights on Xin Jiang Oilfield.

CAPITAL STRUCTURE

Bonus Share Issue

On 1 November 2006, a bonus issued of 312,026,403 Shares was made on the basis of one bonus share for every two existing Shares held on the 24 October 2006.

Bonus Warrant Issue

On 1 November 2006, a bonus issued of 124,810,561 warrants was made on the basis of one warrant for every five issued shares held on 24 October 2006. Each warrant entitles its holder to subscribe in cash at a price of HK\$1.33 for one share of the Company at any time from 3 November 2006 to 2 November 2008, both days inclusive. No warrant was exercised during the period and exercise in full of these warrants would result in the issue of 124,810,561 additional shares of HK\$0.01 each.

Directors and Senior Management

DIRECTORS

Executive Directors

Madam CHEUNG Kwai Lan, aged 69, is the Chairman, one of the founders of the Group and an Executive Director. She has served the Group for more than 7 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 37, is an Executive Director. He has served the Group for more than 5 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 Aptus 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 71, is one of the founders of the Group and an Executive Director. He has served the Group for more than 7 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 11 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 48, 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.

Independent Non-executive Directors

Mr. TIAN He Nian, aged 67, 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 and he is also a member of audit committee of the Company.

Directors and Senior Management

Mr. ZHAO Zhi Ming, aged 65, 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 35, 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 9 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.

SENIOR MANAGEMENT

Mr. KWAN Yiu Ming, Patrick, aged 42, is the Chief Financial Officer, the qualified accountant and the company secretary of the Group. He has served the Group for more than five 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. FUNG King Him, Daniel, aged 37, 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.

Mr. YOUNG Russell, aged 44, is a Director of Corporate Strategy of the Group. He is involved in the corporate strategy and business development of the Group. He holds a Bachelor of Commerce and Administration from Victoria University, New Zealand and a Masters in Business Studies from Massey University, New Zealand. He has over 15 years experience in the finance industry and has held senior positions in a number of reputable investment banks. Prior to joining the Group, he was Regional Head of Mid-Cap Research for Nomura International (Hong Kong) Ltd. after having been Head of Energy and Basic Material Research and Regional Head of Utilities Research. He is also currently an Independent Non-Executive Director of Asia Aluminum Holdings Ltd. He joined the Group in April 2006.

Directors and Senior Management

Mr. WU Ziqiang, aged 45, is the chief executive officer (“CEO”) of Great China of the Group. He is responsible for the lottery business plan and operation of the Group. Mr. Wu has over seven years experience in senior management position in the Hong Kong listed companies and over twenty years experience in information technology related industry based in Hong Kong and the PRC. Prior to joining the Group, he served as Co-CEO and Executive Director of China LotSynergy Holdings Limited, as Vice President of TradeLink Electronic Commerce Limited, as General Manager of UNI-Tech Software Engineering Co., Limited. He held senior positions in China Shenzhen Mercantile Exchange. He has Master Degree in Computer Communication Engineering from the National University of Defense Technology, China. He joined the Group in November 2006.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICE

The Company has committed itself to a high standard of corporate governance. The Directors strongly believe that reasonable and sound corporate governance practices are vital to the Group's rapid growth and to safeguarding and enhancing shareholders' interests.

Except for the deviation from the provision A.4.1 of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the Rules Governing the Listing of Securities (the "GEM Listing Rules") on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited, details of which are stated under the heading of "NON-EXECUTIVE DIRECTORS" below, the Company has complied all remaining provisions of the Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the rules set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code for dealing in securities of the Company by the Directors. Having made specific enquiry of all Directors, the Company was not aware of any non-compliance with the required standard as set out in the code of conduct regarding securities transactions by the directors throughout the year.

BOARD OF DIRECTORS

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

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

Corporate Governance Report

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

	Attendance
Executive Directors	
Madam Cheung Kwai Lan	15/15
Mr. Chan Tung Mei	14/15
Mr. Chan Ting	15/15
Mr. Lau Hin Kun	14/15
Non-executive Director	
Mr. Shaw Kyle Arnold Junior (retired on 24 October 2006)	2/5
Independent Non-executive Directors	
Mr. Tian He Nian	4/15
Mr. Zhao Zhi Ming	5/15
Mr. To Yan Ming, Edmond	5/15

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.

Corporate Governance Report

NON-EXECUTIVE DIRECTORS

The Code provision A.4.1 provides that Non-executive Directors should be appointed for specific terms, subject to re-election. The Company has deviated from this provision in that all Independent Non-executive Directors are not appointed for specific terms. They are, however, subject to retirement and re-election every three years. The reason for the deviation is that the Company does not believe that arbitrary term limits on Directors' service are appropriate given that Directors ought to be committed to representing the long term interests of the Company's shareholders and the retirement and re-election requirements of Independent Non-executive Directors have given the Company's shareholders the right to approve continuation of Independent Non-executive Directors' offices.

REMUNERATION COMMITTEE

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

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

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 Independent Non-executive Directors receive a basic fee for their services. All revisions to the remuneration packages of the Directors are subject to the review and approval of the Board. The directors' fees are subject to shareholders' approval at the annual general meeting. Details of directors' remuneration for each Director are set out in note 10 to the financial statements.

During the year, one meeting was held to approve the issue of share options to the eligible participants.

Corporate Governance Report

NOMINATION OF DIRECTORS

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

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

During the year, there was no nomination of new directors to the Company.

AUDITORS' REMUNERATION

During the year, remuneration paid/payable to auditors for audit services and non-audit services are approximately HK\$968,000 and HK\$365,000 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, semi-annual 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	4/4
Mr. To Yan Ming, Edmond (<i>Chairman</i>)	4/4

The audit committee reviewed the Group's audit results for the year ended 30 June 2007 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 2007.

PRINCIPAL ACTIVITIES AND ANALYSIS OF OPERATIONS

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 39 to the consolidated financial statements.

An analysis of the Group's performance for the year by business is set out in note 6 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 32.

The Directors do not recommend the payment of any dividend for the year ended 30 June 2007.

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 AND SHARE OPTIONS

Details of movements in the share capital and share options of the Company during the year are set out in notes 27 and 28 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated financial statements on page 34.

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 100 of the annual report.

Directors' Report

DIRECTORS

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

Executive Directors

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

Non-executive Director

Mr. Shaw Kyle Arnold Junior (retired on 24 October 2006)

Independent Non-executive Directors

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

In accordance with Article 116 of the Articles of Association of the Company (the "Articles"), Mr. Chan Tung Mei, Mr. Lau Hin Kun and Mr. Tian He Nian 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.

All the 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 2007 and the Company considers the Independent Non-executive Directors to be independent.

Directors' Report

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

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

As at 30 June 2007, 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 or any of its associated corporations

	Company/ Name of associated corporation	Number of ordinary shares held			Total interest	Approximate percentage of shareholding
		Interest in controlled corporation	Beneficial owner	Family interest		
Cheung Kwai Lan	Company	361,695,000 (Note 1)	2,070,000 (Note 2)	–	363,765,000	38.86%
Chan Tung Mei	Company	–	–	363,765,000 (Notes 1 & 2)	363,765,000	38.86%
Lau Hin Kun	Company	–	575,000	–	575,000	0.06%
Cheung Kwai Lan	Best Frontier Investments Limited	–	909	1 (Note 3)	910	–
Chan Tung Mei	Best Frontier Investments Limited	–	1	909 (Note 3)	910	–
Cheung Kwai Lan	Aptus Holdings Limited	971,746,428 (Note 4)	–	–	971,746,428	57.23%
Chan Tung Mei	Aptus Holdings Limited	–	–	971,746,428 (Note 4)	971,746,428	57.23%

Directors' Report

Notes:

1. The 361,695,000 shares are owned by Best Frontier Investments Limited ("Best Frontier") which is owned as to 99.89% and 0.11% by Madam Cheung Kwai Lan and Mr. Chan Tung Mei who are spouse to each other. Accordingly, Madam Cheung Kwai Lan is deemed to be interested in the shares held by Best Frontier and Mr. Chan Tung Mei is deemed to be interested in all 363,765,000 shares by virtue of being the spouse of Madam Cheung Kwai Lan under the SFO.
2. The 2,070,000 shares are owned by Madam Cheung Kwai Lan who is the spouse of Mr. Chan Tung Mei. Accordingly, Mr. Chan Tung Mei is deemed to be interested in the shares under the SFO.
3. The 1 share and 909 shares of US\$1 each in Best Frontier is owned respectively by Mr. Chan Tung Mei and Madam Cheung Kwai Lan who are spouse to each other. Accordingly, Madam Cheung Kwai Lan and Mr. Chan Tung Mei are deemed to be interested in the shares held by each other under the SFO.
4. Madam Cheung Kwai Lan and Mr Chan Tung Mei have equity interests of 99.89% and 0.11% respectively of the issued share capital of Best Frontier. Madam Cheung Kwai Lan and Mr. Chan Tung Mei are spouse to each other. Accordingly, Madam Cheung Kwai Lan is deemed to be 100% interested in the shares of Best Frontier, and Mr. Chan Tung Mei is also deemed to be interested in the shares of Best Frontier by virtue of being the spouse of Madam Cheung Kwai Lan under the SFO. As at 30 June 2007, Best Frontier is interested in approximately 38.64% of the issued share capital of the Company which in turn holds directly 100% shareholding of China Success Enterprises Limited and holds indirectly 100% shareholding of Precise Result Profits Limited, the company directly holding 971,746,428 Aptus shares of which, 48,750,000 Aptus shares has been lent to Evolution Master Fund Ltd. Spc, Segregated Portfolio M pursuant to a stock lending agreement dated 22 November 2006.

(2) Share option of the Company

Details of the share option schemes adopted by the Company are set out in note 28 to the consolidated financial statements.

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.

Directors' Report

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 2007 were as follows:

Name of Director	Date of grant	Exercise price HK\$	Outstanding at 1 July 2006	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 30 June 2007	Exercise period of share options
Cheung Kwai Lan	23/11/06	0.62	-	1,560,000	-	-	1,560,000	23/11/2006 – 17/10/2012
	23/11/06	0.62	-	1,560,000	-	-	1,560,000	23/5/2007 – 17/10/2012
	23/11/06	0.62	-	3,120,000	-	-	3,120,000	23/11/2007 – 17/10/2012
Chan Tung Mei	23/11/06	0.62	-	1,560,000	-	-	1,560,000	23/11/2006 – 17/10/2012
	23/11/06	0.62	-	1,560,000	-	-	1,560,000	23/5/2007 – 17/10/2012
	23/11/06	0.62	-	3,120,000	-	-	3,120,000	23/11/2007 – 17/10/2012
Chan Ting	23/11/06	0.62	-	1,560,000	-	-	1,560,000	23/11/2006 – 17/10/2012
	23/11/06	0.62	-	1,560,000	-	-	1,560,000	23/5/2007 – 17/10/2012
	23/11/06	0.62	-	3,120,000	-	-	3,120,000	23/11/2007 – 17/10/2012
Lau Hin Kun	18/8/2004	0.427 (adjusted)	1,600,000	-	-	-	1,600,000	19/8/2004 – 17/10/2012
	23/11/2006	0.62	-	350,000	-	-	350,000	23/11/2006 – 17/10/2012
	23/11/2006	0.62	-	350,000	-	-	350,000	23/5/2007 – 17/10/2012
	23/11/2006	0.62	-	700,000	-	-	700,000	23/11/2007 – 17/10/2012

Directors' Report

Name of Director	Date of grant	Exercise price HK\$	Outstanding at 1 July 2006	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 30 June 2007	Exercise period of share options
Tian He Nian	23/11/2006	0.62	-	260,000	-	-	260,000	23/11/2006 – 17/10/2012
	23/11/2006	0.62	-	260,000	-	-	260,000	23/5/2007 – 17/10/2012
	23/11/2006	0.62	-	530,000	-	-	530,000	23/11/2007 – 17/10/2012
Zhao Zhi Ming	23/11/2006	0.62	-	260,000	-	-	260,000	23/11/2006 – 17/10/2012
	23/11/2006	0.62	-	260,000	-	-	260,000	23/5/2007 – 17/10/2012
	23/11/2006	0.62	-	530,000	-	-	530,000	23/11/2007 – 17/10/2012
To Yan Ming, Edmond	23/11/2006	0.62	-	260,000	-	-	260,000	23/11/2006 – 17/10/2012
	23/11/2006	0.62	-	260,000	-	-	260,000	23/5/2007 – 17/10/2012
	23/11/2006	0.62	-	530,000	-	-	530,000	23/11/2007 – 17/10/2012
Shaw Kyle Arnold Junior	19/10/2004	0.433 (adjusted)	1,200,000	-	-	(1,200,000)	-	20/10/2004 – 17/10/2012
Total			2,800,000	23,270,000	-	(1,200,000)	24,870,000	

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 (adjusted to HK\$0.427 due to issue of bonus shares on 1 November 2006), HK\$0.65 (adjusted to HK\$0.433 due to issue of bonus shares on 1 November 2006), respectively.

During the year, 62,400,000 share options had been granted to certain eligible participants under Share Option Scheme.

The closing price of the Company's shares on 23 November 2006, the date of grant of the share options, was HK\$0.63.

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

Directors' Report

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

(3) Long positions in underlying Shares

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

Name of Directors	Capacity	Number of Warrants and number of Shares entitled pursuant to the full exercise of the Warrants held as at 30 June 2007
Cheung Kwai Lan	Beneficial owner	276,000
Lau Hin Kun	Beneficial owner	90,000

Save as disclosed above, as at 30 June 2007, 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 and short positions in the shares, underlying shares and debentures of the Company or any associated corporation" above, at no time during the year was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors and chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any body corporate, and none of the directors and chief executives or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

Directors' Report

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

As at 30 June 2007, according to the register kept by the Company pursuant to section 336 of SFO, and so far as is known to the Directors or the chief executives of the Company, the following persons (other than a Director or chief executive of the Company) had, or was deemed taken to have, an interest or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital, carrying rights to vote in all circumstances at general meeting of any member of the Group:

(1) Long positions in the shares

Name of Shareholders	Capacity	Number of shares held		Approximate percentage of shareholding
		Long position	Short position	
Best Frontier Investments Limited	Beneficial owner	361,695,000 (Note 1)	–	38.64%
Oppenheimer Funds, Inc.	Investment manager	165,000,000	–	17.63%
Haven Associates Limited	Interest in controlled corporation	69,900,000 (Note 2)	–	7.47%
Shaw Kyle Arnold Junior	Interest in controlled corporation	69,900,000 (Note 2)	–	7.47%

Notes:

1. The 361,695,000 shares are owned by Best Frontier Investments Limited which is owned as to 99.89% and 0.11% by Madam Cheung Kwai Lan and Mr. Chan Tung Mei who are spouse to each other.
2. The 69,900,000 shares represent:
 - (a) 1,545,000 shares beneficially owned by Shaw, Kwei & Partners (Asia) Ltd.
 - (b) 36,930,000 shares beneficially owned by China Value Investment Limited which is wholly-owned by Asian Value Investment Fund L.P. (AVIF, L.P.), a limited liability partnership, whose general partner Shaw, Kwei & Partners (Asia) Ltd. (having a 1% interest in AVIF, L.P.) is deemed under the SFO to have interest in the same 36,930,000 shares.
 - (c) 31,425,000 shares beneficially owned by Javelin Capital Holdings Limited which is wholly-owned by Asian Value Investment Fund II, L.P. (AVIF II, L.P.), a limited liability partnership, whose general partner SKP Capital Limited (having a 1.19% interest in AVIF II, L.P.) is deemed under the SFO to have interest in the same 31,425,000 shares.
 - (d) Haven Associates Limited, a company controlled by Mr. Shaw Kyle Arnold Junior, a former Director who had been retired from his office after the conclusion of the Company's annual general meeting held on 24 October 2006, is the controlling shareholder of Shaw, Kwei & Partners (Asia) Ltd. and SKP Capital Limited.

Directors' Report

(2) Long positions in underlying Shares

Name of Shareholders	Capacity	Number of Warrants and number of Shares entitled pursuant to the full exercise of the Warrants held as at 30 June 2007
Best Frontier Investments Limited	Beneficial owner (Note 1)	48,226,000
Oppenheimer Funds, Inc.	Investment manager	22,000,000
Haven Associates Limited	Interest in controlled corporation (Note 2)	9,320,000
Shaw Kyle Arnold Junior	Interest in controlled corporation (Note 2)	9,320,000

Notes:

1. The 48,226,000 Warrants 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 who are spouse to each other.
2. The 9,320,000 Warrants represent:
 - (a) 206,000 Warrants beneficially owned by Shaw, Kwei & Partners (Asia) Ltd.
 - (b) 4,924,000 Warrants beneficially owned by China Value Investment Limited which is wholly-owned by Asian Value Investment Fund L.P. (AVIF, L.P.), a limited liability partnership, whose general partner Shaw, Kwei & Partners (Asia) Ltd. (having a 1% interest in AVIF, L.P.) is deemed under the SFO to have interest in the same 4,924,000 warrants.
 - (c) 4,190,000 Warrants beneficially owned by Javelin Capital Holdings Limited which is wholly-owned by Asian Value Investment Fund II, L.P. (AVIF II, L.P.), a limited liability partnership, whose general partner SKP Capital Limited (having a 1.19% interest in AVIF II, L.P.) is deemed under the SFO to have interest in 4,190,000 warrants.
 - (d) Haven Associates Limited, a company controlled by Mr. Shaw Kyle Arnold Junior, a former Director who had been retired from his office after the conclusion of the Company's annual general meeting held on 24 October 2006, is the controlling shareholder of Shaw, Kwei & Partners (Asia) Ltd. and SKP Capital Limited.

Save as disclosed above, as at 30 June 2007, the Directors or chief executive of the Company were not aware of any person (other than a Director or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, was, directly or indirectly, interest in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group.

Directors' Report

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 2007, the Group made 67.81% of its entire sales to five customers and sales to the largest customer included therein amounted to approximately 38.08%.

Purchases from the Group's five largest suppliers accounted for approximately 86.38% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 56.43%.

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.

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 2007 have been reviewed by the audit committee which was of the opinion that the preparation of such results complied with applicable accounting standards and requirements and that adequate disclosures had been made. Four meetings were held during the current financial year.

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

Directors' Report

AUDITORS

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, 27 September 2007

Independent Auditor's Report

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**W.H. TANG
& PARTNERS
CPA LIMITED**

TO THE SHAREHOLDERS OF CHINA VANGUARD GROUP 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 (collectively referred to as the "Group") set out on pages 32 to 99, which comprise the consolidated balance sheet as at 30 June 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

Independent Auditor's Report

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 2007 and of the loss and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

W.H. Tang & Partners CPA Limited

Certified Public Accountants

Tang Wai Hung

Practising Certificate Number P03525

Hong Kong, 27 September 2007

Consolidated Income Statement

For the year ended 30 June 2007

	Notes	2007 HK\$'000	2006 HK\$'000 (restated)
Continuing operations			
Revenue	7	88,246	42,995
Cost of sales		(63,410)	(37,332)
Gross profit		24,836	5,663
Other revenue	7	5,908	1,930
Selling and distribution costs		(4,972)	(2,844)
Administrative expenses		(134,223)	(110,112)
Gain on disposal of subsidiaries		30,635	–
Gain on partial disposal of subsidiary		–	32,349
Loss on disposal of an associate		–	(13,106)
Finance costs	8	(24,526)	(2,701)
Share of results of associates		–	18,830
Loss before income tax	9	(102,342)	(69,991)
Income tax expenses	12	(1,411)	(5,410)
Loss for the year from continuing operations		(103,753)	(75,401)
Discontinued operations			
Profit for the year from discontinued operations	13	272	17,039
Loss for the year		(103,481)	(58,362)
Attributable to:			
Equity holders of the Company		(72,521)	(39,908)
Minority interests		(30,960)	(18,454)
		(103,481)	(58,362)
Loss per share	15		
From continuing and discontinued operations			
Basic		(HK7.75 cents)	(HK7.47 cents)
From continuing operations			
Basic		(HK7.78 cents)	(HK10.66 cents)

Consolidated Balance Sheet

At 30 June 2007

	Notes	2007 HK\$'000	2006 HK\$'000
Non-current assets			
Property, plant and equipment	16	235,697	17,588
Goodwill	17	280,689	135,061
Other intangible assets	18	2,603	6,586
Interest in associates	19	238	238
Prepaid lease payments	20	12,496	–
Construction in progress	21	14,004	–
Deposits made on acquisition of property, plant and equipment		–	3,756
		545,727	163,229
Current assets			
Inventories	22	6,536	7,436
Trade and other receivables and prepayments	23	89,656	90,458
Prepaid lease payments – current portion	20	380	–
Pledged bank deposits		5,000	13,308
Bank balances and cash		204,722	244,983
		306,294	356,185
Current liabilities			
Trade and other payables	24	57,528	30,459
Tax liabilities		1,422	99
Bank and other borrowings – due within one year	25	5,617	12,505
		64,567	43,063
Net current assets		241,727	313,122
Total assets less current liabilities		787,454	476,351
Non-current liabilities			
Bank and other borrowings	25	106,105	22,500
Convertible bonds	26	243,144	–
		349,249	22,500
Net assets		438,205	453,851
Capital and reserves			
Share capital	27	9,361	6,241
Reserves		416,336	391,717
Equity attributable to equity holders of the Company		425,697	397,958
Minority interests		12,508	55,893
Total equity		438,205	453,851

The financial statements on pages 32 to 99 were approved and authorized for issue by the board of directors on 27 September 2007 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 2007

	Attributable to equity holders of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Convertible bonds reserve HK\$'000	Employee share-based compensation reserve HK\$'000	Share option reserve HK\$'000	Translation reserve HK\$'000	Special reserve HK\$'000	Retained profits/(Accumulated loss) HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 July 2005	4,821	80,825	-	-	-	-	(1)	74,997	160,642	10,129	170,771
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	50,917	50,917
Exchange differences arising from acquisition of subsidiaries	-	-	-	-	-	1,935	-	-	1,935	284	2,219
Capital contribution from minority interests	-	-	-	-	-	-	-	-	-	12,791	12,791
Partial disposal of subsidiaries	-	-	-	-	-	-	-	-	-	226	226
Shares issued on share award scheme	488	-	-	35,572	-	-	-	-	36,060	-	36,060
Placing of shares	680	139,147	-	-	-	-	-	-	139,827	-	139,827
Shares issued pursuant to sale and purchase agreement	241	69,715	-	-	-	-	-	-	69,956	-	69,956
Recognition of equity-settled share based payments	-	-	-	-	39,399	-	-	-	39,399	-	39,399
Shares issued on exercise of options	11	317	-	-	-	-	-	-	328	-	328
Net loss for the year	-	-	-	-	-	-	-	(39,908)	(39,908)	(18,454)	(58,362)
Dividends paid	-	-	-	-	-	-	-	(10,281)	(10,281)	-	(10,281)
At 30 June 2006	6,241	290,004	-	35,572	39,399	1,935	(1)	24,808	397,958	55,893	453,851
At 1 July 2006	6,241	290,004	-	35,572	39,399	1,935	(1)	24,808	397,958	55,893	453,851
Bonus issue	3,120	(3,120)	-	-	-	-	-	-	-	-	-
Recognition of equity-settled share based payments	-	-	-	-	83,347	-	-	-	83,347	-	83,347
Acquisition of jointly controlled entities	-	-	-	-	-	-	-	-	-	737	737
Capital contribution from minority shareholders	-	-	-	-	-	-	-	-	-	3,162	3,162
Recognition of equity components of convertible bonds	-	-	10,712	-	-	-	-	-	10,712	-	10,712
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	(7,381)	(7,381)
Dividend paid to minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	(10,117)	(10,117)
Reduction on minority holding	-	-	-	-	-	-	-	-	-	(452)	(452)
Exchange differences on translation of financial statement of overseas operations	-	-	-	-	-	6,201	-	-	6,201	1,626	7,827
Net loss for the year	-	-	-	-	-	-	-	(72,521)	(72,521)	(30,960)	(103,481)
At 30 June 2007	9,361	286,884	10,712	35,572	122,746	8,136	(1)	(47,713)	425,697	12,508	438,205

Consolidated Cash Flow Statement

For the year ended 30 June 2007

Notes	2007 HK\$'000	2006 HK\$'000
OPERATING ACTIVITIES		
Loss for the year	(103,481)	(58,362)
Adjustment for:		
Income tax expenses	1,442	6,717
Interest income	(2,460)	(1,868)
Interest expenses	24,537	3,005
Depreciation of property, plant and equipment	10,670	1,428
Provision of deposits made on acquisitions of property, plant and equipment	–	133
Provision for doubtful debts	–	429
Loss on disposal of property, plant and equipment	70	387
Impairment of goodwill	145	3,361
Share of results of associates	–	(18,830)
Gain on partial disposal of a subsidiary	–	(32,349)
Gain on disposal of subsidiaries	(30,635)	–
Amortization of prepaid lease payment	152	–
Loss on disposal of an associate	–	13,106
Share option expenses	83,347	39,399
Share award expenses	–	36,060
Amortization of other intangible assets	1,848	437
Operating cash flows before movements in working capital	(14,365)	(6,947)
(Increase)/decrease in inventories	(1,712)	2,476
Increase in trade and other receivables and prepayments	(872)	(9,421)
Increase/(decrease) in trade and other payables	16,264	(15,791)
Cash used in operations	(685)	(29,683)
Tax paid	(1,623)	(1,956)
NET CASH USED IN OPERATING ACTIVITIES	(2,308)	(31,639)

Consolidated Cash Flow Statement

For the year ended 30 June 2007

Notes	2007 HK\$'000	2006 HK\$'000
INVESTING ACTIVITIES		
Interest received	2,484	1,842
Purchases of property, plant and equipment	(46,620)	(5,513)
Purchases of other intangible assets	–	(1,665)
Purchases of construction in progress	(5,871)	–
Decrease in pledged bank deposits	8,308	18,453
Cash consideration on acquisition of jointly controlled entities 29	(120,902)	–
Cash consideration on acquisition of subsidiaries 29	–	(23,093)
Reduction on minority shareholding	(96,773)	–
Acquisition of investment in an associate	–	(22,887)
Proceeds from disposal of property, plant and equipment	21	30
Proceeds from disposal of subsidiaries 29	31,219	–
Proceeds from partial disposal of a subsidiary	–	32,575
Proceeds from sale of an associate	–	24,199
Purchases of prepaid lease payments	(99)	–
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(228,233)	23,941
FINANCING ACTIVITIES		
Interest paid	(4,464)	(1,590)
Issue of shares	–	140,155
Dividend paid	–	(10,281)
Net (repayment) raising of borrowing	(39,354)	3,943
Capital contribution from minority interests	3,162	12,791
Proceeds from issue of convertible bonds	234,000	–
Dividend paid to minority shareholders of subsidiaries	(10,117)	–
NET CASH FROM FINANCING ACTIVITIES	183,227	145,018
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(47,314)	137,320
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	244,983	105,597
Effect of foreign exchange rate changes	7,053	2,066
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by		
Bank balances and cash (Note)	204,722	244,983
Note: Included in bank balances and cash are denominated in Renminbi	2007 RMB'000	2006 RMB'000
	170,508	180,256

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

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 Corporate Information of the Annual Report.

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

The principal activities of the Company is investment holding. The activities of its principal subsidiaries and jointly controlled entities are set out in note 39 and 40 respectively.

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 and amended Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (“HKASs”) and Interpretations (“INTs”) (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 July 2006. The application of the new HKFRSs has no material affect on how the results for the current and prior accounting periods are prepared and presented. Accordingly, no prior years adjustment has been required.

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standards, amendment or interpretations will have no material impact on the results and financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures ¹
HKAS 23 (Revised)	Borrowing costs ²
HKFRS 7	Financial instruments: Disclosures ¹
HKFRS 8	Operating segments ²
HK(IFRIC)-INT 10	Interim financial reporting and impairment ³
HK(IFRIC)-INT 11	HKFRS 2 – Group and treasury share transactions ⁴
HK(IFRIC)-INT 12	Service concession arrangements ⁵

¹ Effective for annual periods beginning on or after 1 January 2007

² Effective for annual periods beginning on or after 1 January 2009

³ Effective for annual periods beginning on or after 1 November 2006

⁴ Effective for annual periods beginning on or after 1 March 2007

⁵ Effective for annual periods beginning on or after 1 January 2008

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair values as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA as well as the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange Hong Kong Limited.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies at an entity so as to obtain benefit from its activities.

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 material intra-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.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under Hong Kong Financial Reporting Standard ("HKFRS") 3 "Business Combinations" are recognized at their fair values at the acquisition date.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in profit or loss.

The interest of minority shareholders in the acquiree initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Interest in jointly controlled entities

Joint venture arrangements that involve the establishment of a separated entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The Group recognizes its interests in jointly controlled entities using proportionate consolidation. The Group's share of each of the assets, liabilities, income and expenses of the jointly controlled entities are combined with the Group's similar line items, line by line, in the consolidated financial statements.

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising on the acquisition of a subsidiary.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment is recognized immediately in profit or loss.

When a group entity transacts with a jointly controlled entity of the Group, unrealized profits or losses are eliminated to the extent to the Group's interest in the jointly controlled entity, except to the extent that unrealized losses provided evidence of an impairment of the asset transferred, in which case the full amount of losses is recognized.

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 or a jointly controlled entity 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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Goodwill – continued

Capitalized goodwill arising on an acquisition of a subsidiary or a jointly controlled entity is presented separately in the consolidated 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 consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of subsidiaries or a jointly controlled entity, 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 the consolidated 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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of gas and gas appliances are recognized when goods are delivered and title has passed.

Gas transportation revenue and gas connection fee income are recognized when the corresponding services are performed.

Sales of goods are recognized when goods are delivered and title has been passed.

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

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

Property, plant and equipment

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

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Property, plant and equipment – continued

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

Leasehold land and buildings	3%-5% or over the lease term but limited to 15 years
Furniture, fixtures and equipment	7%-25%
Computer equipment	20%-25%
Plant and machinery	3%-12%
Motor vehicles	6%-20%
Gas distribution network	5%-10%
Gas storage equipment	5%-31%

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognized.

Construction in progress

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating lease is recognized in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expenses on a straight-line basis over the lease term.

The Group as lessee

Rentals payable under operating leases are charged to profit and loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognized as reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

Land and building elements of a lease of land and building are considered separately for the purposes of lease classification, leasehold land which title is not expected to pass to the lessee by the end of the lease term is classified as an operating lease unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is classified as a finance lease.

Impairment losses on assets other than goodwill

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. 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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

3. 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 2007

3. 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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

3. 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 2007

3. 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 accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Borrowings

Interest-bearing bank loans and other loans are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest method. Any difference between the proceeds (net of transaction cost and the settlement or redemption of borrowings) is recognized over the terms of the borrowings in accordance with the Group's accounting policy for borrowing costs.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Convertible bonds

Convertible bonds issued by the Group that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of Aptus own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate of similar non-convertible debts. The difference between the proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the conversion option for the holder to convert the bonds into equity, is included in equity (equity component of convertible bonds).

In subsequent periods, the liability component of the convertible bonds is carried at amortized cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible bonds reserve until the conversion option is exercised (in which case the balance stated in convertible bonds reserve will be transferred to premium). Where the option remains unexercised at the expiry date, the balance stated in convertible bonds reserve will be released to the retained earnings. No gain or loss is recognized in profit or loss upon conversion or expiration of the option.

Transaction costs that related to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortized over that the period of the convertible bonds using the effective interest method.

Other financial liabilities

Other financial liabilities including accounts payables, accrued liabilities and other payables 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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

3. 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.

Financial liabilities, are derecognized from the Group's consolidated balance sheet 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 paid or payable 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 2007

3. 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 2007

3. 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 2007

3. 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.

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.

Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs when the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the income statement, which comprises:

- the post-tax profit or loss of the discontinued operation; and
- the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in Note 3, 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 2007, the carrying amount of goodwill is HK\$280,689,000 (2006: 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 2007, no deferred tax asset was recognized in the Group's consolidated balance sheet in relation to the estimated unused tax losses of approximately HK\$42,276,000 (2006: 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 2007

4. 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 28 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.

5. 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 2007 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 2007, 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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

6. SEGMENT INFORMATION

a. Business segments

	Year ended 30 June 2007									
	Continuing operations						Discontinued operations			
	Distribution of natural supplementary products	Provision of lottery-related hardware and software systems	Sales and distribution of edible oil	Oil mining	Gas related	Others	Total	Manufacturing and distribution of honey mead	Operation of restaurant	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	2,279	28,283	42,912	-	14,743	29	88,246	929	2,286	91,461
Segment results	(664)	9,510	123	(1,187)	(1,922)	(505)	5,355	421	(107)	5,669
Unallocated income							15,658	-	-	15,658
Unallocated expenses							(129,464)	-	-	(129,464)
Finance costs							(24,526)	(11)	-	(24,537)
Gain on disposal of subsidiaries							30,635	-	-	30,635
(Loss) profit before taxation							(102,342)	410	(107)	(102,039)
Income tax expenses							(1,411)	(31)	-	(1,442)
(Loss) profit for the year							(103,753)	379	(107)	(103,481)

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

6. SEGMENT INFORMATION – continued

a. Business segments – continued

	Year ended 30 June 2006									
	Continuing operations						Discontinued operations			
	Distribution of natural supplementary products	Provision of lottery-related hardware and software systems	Sales and distribution of edible oil	Oil mining	Gas related	Others	Total	Manufacturing and distribution of honey mead	Operation of restaurant	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	1,321	10,854	30,820	-	-	-	42,995	38,613	-	81,608
Segment results	(16,577)	1,501	(90)	(470)	-	-	(15,636)	19,107	(457)	3,014
Unallocated income							33,000	-	-	33,000
Unallocated expenses							(103,484)	-	-	(103,484)
Share of results of associates							18,830	-	-	18,830
Finance costs							(2,701)	(304)	-	(3,005)
(Loss) profit before taxation							(69,991)	18,803	(457)	(51,645)
Income tax expenses							(5,410)	(1,307)	-	(6,717)
(Loss) profit for the year							(75,401)	17,496	(457)	(58,362)

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

6. SEGMENT INFORMATION – continued

a. Business segments – continued

	Year ended 30 June 2007						
	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	Oil mining HK\$'000	Gas related HK\$'000	Others HK\$'000	Consolidated HK\$'000
ASSETS							
Segment assets	66,084	75,538	1,442	30,419	265,122	3,959	442,564
Unallocated assets							409,457
Total assets							852,021
LIABILITIES							
Segment liabilities	882	39,258	531	1,233	104,709	530	147,143
Unallocated liabilities							266,673
Total liabilities							413,816

OTHER INFORMATION

	Continuing operations						Discontinued operations			
	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	Oil mining HK\$'000	Gas related HK\$'000	Others HK\$'000	Total HK\$'000	Manufacturing and distribution of honey mead HK\$'000	Operation of restaurant HK\$'000	Consolidated HK\$'000
Depreciation of property, plant and equipment	688	5,188	-	-	4,194	246	10,316	-	354	10,670
Amortization of prepaid lease payments	-	-	-	-	152	-	152	-	-	152
Capital expenditure	839	41,474	-	-	1,650	2,093	46,056	-	564	46,620
Other non-cash expenses	-	-	-	-	-	103,203	103,203	-	-	103,203
Impairment of goodwill	145	-	-	-	-	-	145	-	-	145
Amortization of other intangible assets	-	1,848	-	-	-	-	1,848	-	-	1,848

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

6. SEGMENT INFORMATION – continued

a. Business segments – continued

	Year ended 30 June 2006						
	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	Oil mining HK\$'000	Gas related HK\$'000	Others HK\$'000	Consolidated HK\$'000
ASSETS							
Segment assets	274,964	44,458	1,298	41,912	–	–	362,632
Unallocated assets							156,782
Total assets							519,414
LIABILITIES							
Segment liabilities	5,374	22,919	519	661	–	–	29,473
Unallocated liabilities							36,090
Total liabilities							65,563

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

6. SEGMENT INFORMATION – continued

a. Business segments – continued

OTHER INFORMATION

	Continuing operations						Discontinued operations			
	Distribution of natural supplementary products	Provision of lottery-related hardware and software systems	Sales and distribution of edible oil	Oil mining	Gas related	Others	Total	Manufacturing and distribution of honey mead	Operation of restaurant	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation of property plant and equipment	561	387	-	15	-	26	989	439	-	1,428
Impairment losses on goodwill	-	-	3,361	-	-	-	3,361	-	-	3,361
Capital expenditure	2,282	171	-	-	-	1,139	3,592	23	1,898	5,513
Other non-cash expenses	-	-	-	-	-	75,459	75,459	-	-	75,459
Loss on disposal of property, plant and equipment	55	-	-	-	-	-	55	332	-	387
Amortization of other intangible assets	-	437	-	-	-	-	437	-	-	437

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

6. SEGMENT INFORMATION – continued

b. Geographical market segments

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

	2007		Elimination		Consolidated	
	HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Geographical market Segment revenue:						
PRC	44,471	66,497	(487)	(16,979)	43,984	49,518
Hong Kong	2,279	1,270	–	–	2,279	1,270
South East Asia	44,518	30,204	–	–	44,518	30,204
Europe	680	616	–	–	680	616
Total	91,948	98,587	(487)	(16,979)	91,461	81,608
Segment results:						
PRC					6,317	19,782
Hong Kong					(664)	(16,221)
South East Asia					14	(88)
Europe					2	(2)
Unallocated income					15,658	33,000
Unallocated expenses					(129,464)	(103,941)
Finance costs					(24,537)	(3,005)
Gain on disposal of subsidiaries					30,635	–
Share of results of associates					–	18,830
Loss before income tax					(102,039)	(51,645)
Income tax expenses					(1,442)	(6,717)
Loss for the year					(103,481)	(58,362)

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

7. REVENUE AND OTHER REVENUE

The principal activities of the Group are (i) the distribution of natural supplementary products, (ii) provision of lottery-related hardware and software systems, (iii) the sales and distribution of edible oil, (iv) mining operation of Xin Jiang Oilfield, and (v) sales of gas and gas appliances, provision of gas transportation services and installation services for gas connected.

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

Revenue recognized during the year is as follows:

	2007 HK\$'000	2006 HK\$'000
Continuing operations		
Revenue		
Distribution of natural supplementary products	2,279	1,321
Provision of lottery-related hardware and software systems	28,283	10,854
Sales and distribution of edible oil	42,912	30,820
Gas related	14,743	–
Sales of goods	29	–
	88,246	42,995
Discontinued operations		
Manufacturing and distribution of honey mead	929	38,613
Operation of restaurant	2,286	–
	3,215	38,613
	91,461	81,608
Continuing operations		
Other revenue		
Interest income	2,460	1,868
Others	3,448	62
	5,908	1,930
Discontinued operations		
Others	3	3
	5,911	1,933

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

8. FINANCE COSTS

	Continuing operations		Discontinued operations	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Interest on borrowings wholly repayable within five years	2,736	2,701	11	304
Interest on borrowings wholly repayable after five years	1,934	–	–	–
Interest on convertible bonds	19,856	–	–	–
	24,526	2,701	11	304

9. LOSS BEFORE INCOME TAX

	Continuing operations		Discontinued operations	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Loss before income tax has been arrived at after charging (crediting):				
Staff costs (excluding directors' emoluments – note 10):				
Wages and salaries	13,428	7,110	664	428
Retirement benefits scheme contributions	217	180	–	155
Total staff costs	13,645	7,290	664	583
Auditors' remuneration	968	628	–	2
Amortization of other intangible assets	1,801	437	–	–
Depreciation of property, plant and equipment (Note 1)	10,316	1,313	354	115
Provision of deposits made on acquisition of property, plant and equipment	–	–	–	133
Operating lease rentals in respect of land and building	1,872	1,393	–	306
Cost of inventories recognized as expenses	63,410	34,178	1,062	14,463
Loss on disposal of property, plant and equipment	70	55	–	332
Loss on disposal of an associate	–	13,106	–	–
Bad debts	74	–	–	–
Provision for doubtful debts	–	429	–	–
Share option expenses	83,347	39,399	–	–
Impairment of goodwill	145	3,361	–	–
Net foreign exchange gains	(5,805)	(2,110)	–	–

Note 1: For the year ended 30 June 2007, cost of inventories included approximately of HK\$2,380,000 relating to depreciation expenses, which amount is also included in the respective total amounts disclosed separately above in the note 9 for each of these types.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

Emoluments paid or payable to each of the 8 (2006: 11) directors of the Company during the year were as follows:

For the year ended 30 June 2007

	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	20	1,422
Chan Tung Mei	78	650	–	728
Lau Hin Kun	78	312	16	406
Independent Non-executive Directors:				
Tian He Nian	117	–	–	117
Zhao Zhi Ming	117	–	–	117
To Yan Ming, Edmond	125	–	–	125
Non-executive Director: Shaw Kyle Arnold Junior (Note 6)	25	–	–	25
	744	4,212	36	4,992

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

Notes:

- resigned on 25 November 2005
- resigned on 30 December 2005
- resigned on 11 January 2006
- appointed on 30 December 2005
- appointed on 11 January 2006
- retired on 24 October 2006

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

10. 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 two (2006: three) Directors whose emoluments are set out in the above. The emoluments payable to the remaining three (2006: two) individual during the year as follows:

	2007 HK\$'000	2006 HK\$'000
Salaries, allowances and other benefits	4,756	2,133
Contributions to retirement benefits scheme	36	23
	4,792	2,156

The emoluments fell with the following bands:

	2007 No. of individuals	2006 No. of individuals
Emoluments bands		
Nil – HK\$1,000,000	1	1
HK\$1,000,001 – HK\$2,000,000	1	1
HK\$2,000,001 – HK\$3,000,000	1	–

During the year ended 30 June 2007, no emoluments have been paid by the Group to the two Directors (2006: three Directors) or the three (2006: two) highest paid individuals as an inducement to join the Group, or as compensation for loss of office.

11. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2007 HK\$'000	2006 HK\$'000
Wages and salaries	19,048	12,492
Pension cost – defined contribution plans	253	363
	19,301	12,855

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

12. INCOME TAX EXPENSES

	Continuing operations		Discontinued operations		Consolidated	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
The charge comprises:						
Current year						
Hong Kong Profits Tax	–	–	–	–	–	–
Other jurisdictions	1,411	120	31	1,307	1,442	1,427
	1,411	120	31	1,307	1,442	1,427
Over-provisions in prior years						
Hong Kong Profits Tax	–	–	–	–	–	–
Other jurisdictions	–	(127)	–	–	–	(127)
	–	(127)	–	–	–	(127)
Share of taxation charge of an associate	–	5,417	–	–	–	5,417
Income tax expenses charged for the year	1,411	5,410	31	1,307	1,442	6,717

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 2007. 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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

12. INCOME TAX EXPENSES – continued

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

	2007 HK\$'000	2006 HK\$'000
Loss before income tax:		
Continuing operations	(102,342)	(69,991)
Discontinued operations	303	18,346
	(102,039)	(51,645)
Tax at the Hong Kong Profits Tax rate of 17.5% (2006: 17.5%)	(17,858)	(9,038)
Tax effect of sharing result of associates	–	5,417
Tax effect of expenses that are not deductible for tax purposes	33,820	22,531
Tax effect of income that is not taxable for tax purposes	(14,908)	(8,379)
Tax effect of tax losses not recognized	5,268	1,751
Tax effect of utilization of tax losses previously not recognized	(1,413)	(239)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(3,467)	(5,199)
Tax effect of over-provision in prior years	–	(127)
Income tax expenses	1,442	6,717

At the balance sheet date, the subsidiaries have unused tax losses of approximately HK\$42,276,000 (2006: HK\$37,084,000) 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. Included in unused estimated tax losses are losses of approximately HK\$11,705,000 (2006: HK\$4,793,000) that will expire within 2 to 4 years from the year origination. Other losses may be carried forward indefinitely.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

12. INCOME TAX EXPENSES – continued

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

	2007 HK\$'000	2006 HK\$'000
Deductible temporary differences:		
Unutilized tax losses	42,276	37,084
Other	8,513	6,630
Taxable temporary differences:		
Accelerated tax allowances	(1,065)	(1,320)
Other	–	(228)
	49,724	42,166

13. DISCONTINUED OPERATIONS

In September 2006, the Group ceased its manufacturing and sales of honey mead business by disposal of interest in the subsidiaries, Wuhu Bee & Bee Natural Food Company Limited and Zhuhai Free Trade Zone Bee & Bee Natural Food Company Limited. The proceeds of sales substantially exceeded the carrying amount of the related net assets of the subsidiaries and, accordingly, no impairment losses were recognized on the reclassification of these operations as held for sale.

In addition, in April 2007, the Group disposed one of its subsidiaries, La Cucina Italian (Macau) Limited, a restaurant operated in Macau. Details of the assets and liabilities disposed of are disclosed in note 29.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

13. DISCONTINUED OPERATIONS – continued

	2007 HK\$'000	2006 HK\$'000
Profit for the year from discontinued operations		
Revenue		
– manufacturing and sales of honey mead	929	38,613
– operation of a restaurant	2,286	–
	3,215	38,613
Expenses		
– manufacturing and sales of honey mead	(518)	(19,810)
– operation of a restaurant	(2,394)	(457)
	(2,912)	(20,267)
Profit before tax	303	18,346
Income tax expenses	(31)	(1,307)
Profit for the year from discontinued operations	272	17,039
Cash flows from discontinued operations		
Net cash flows from operating activities	5,139	29,110
Net cash flows from investing activities	(561)	(1,918)
Net cash flows from financing activities	(1,356)	(6,521)
Net cash flows	3,222	20,671

14. DIVIDENDS

	2007 HK\$'000	2006 HK\$'000
Nil interim dividend (2006: HK0.5 cent per share on 609,872,807 shares)	–	3,049

The Directors do not recommend the payment of any dividend for the year ended 30 June 2007.

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For the year ended 30 June 2007

15. LOSS PER SHARE

For continuing and discontinued operations

The calculation of basic loss per share is based on the following data:

	2007 HK\$'000	2006 HK\$'000
Loss for the purposes of basic loss per share	(72,521)	(39,908)

Number of shares

	'000	'000
Weighted average number of ordinary shares for the purpose of basic loss per share	936,079	534,223

No diluted loss per share has been presented in both years, as the outstanding share options and convertible bonds of the Company are anti-dilutive since their exercise or concession would result in a decrease in loss per share.

From continuing operations

The calculation of the basic loss per shares from continuing operations attributable to the ordinary equity share holders of the parent is based on the following data:

	2007 HK\$'000	2006 HK\$'000
Loss for the year attributable to equity holders of the parent	(72,521)	(39,908)
Less: Profit for the year from discontinued operations	272	17,039
Loss for the purpose of basic loss per share from continuing operations	(72,793)	(56,947)

The denominators used are the same as those detailed above for basic loss per share.

From discontinued operations

Earnings per share for the discontinued operations is HK0.03 cents per share (2006: HK3.19 cents per share), based on the profit for the year from the discontinued operations of approximately HK\$272,000 (2006: HK\$17,039,000) and the denominators detailed above for basic loss per share.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Gas distribution network HK\$'000	Gas storage equipment HK\$'000	Furniture, fixtures and equipment HK\$'000	Plant and machinery HK\$'000	Leasehold improvement HK\$'000	Motor vehicles HK\$'000	Computer equipment HK\$'000	Total HK\$'000
COST									
At 1 July 2005	-	-	-	532	3,251	519	857	-	5,159
Exchange realignment	-	-	-	6	95	-	8	-	109
Additions	359	-	-	535	516	1,547	2,502	54	5,513
Acquired on acquisition of subsidiaries	6,019	-	-	603	-	-	255	3,644	10,521
Disposal	-	-	-	-	(523)	-	(345)	-	(868)
At 30 June 2006 and At 1 July 2006	6,378	-	-	1,676	3,339	2,066	3,277	3,698	20,434
Exchange realignment	617	3,431	219	159	29	-	61	211	4,727
Additions	781	-	-	886	42,100	1,154	1,552	147	46,620
Acquired on acquisition of jointly controlled entities	11,100	153,943	9,822	5,190	-	-	1,488	-	181,543
Disposal of subsidiaries	-	-	-	(629)	(2,845)	(2,112)	(284)	-	(5,870)
Disposal	-	-	-	(22)	-	-	(99)	-	(121)
At 30 June 2007	18,876	157,374	10,041	7,260	42,623	1,108	5,995	4,056	247,333
DEPRECIATION									
At 1 July 2005	-	-	-	253	1,007	187	383	-	1,830
Exchange realignment	-	-	-	4	29	-	3	-	36
Charged for the year	106	-	-	146	351	253	318	254	1,428
Eliminated on disposals	-	-	-	-	(188)	-	(260)	-	(448)
At 30 June 2006 and At 1 July 2006	106	-	-	403	1,199	440	444	254	2,846
Exchange realignment	6	-	-	2	1	-	2	14	25
Charged for the year	633	3,332	280	553	3,927	395	752	798	10,670
Disposal of subsidiaries	-	-	-	(236)	(1,188)	(283)	(168)	-	(1,875)
Eliminated on disposals	-	-	-	(12)	-	-	(18)	-	(30)
At 30 June 2007	745	3,332	280	710	3,939	552	1,012	1,066	11,636
NET BOOK VALUES									
At 30 June 2007	18,131	154,042	9,761	6,550	38,684	556	4,983	2,990	235,697
At 30 June 2006	6,272	-	-	1,273	2,140	1,626	2,833	3,444	17,588

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\$5,834,000 (2006: HK\$5,918,000) to secure general banking facilities granted to the subsidiary. In additions, gas distribution network of the Group's jointly controlled entity with a net book value of approximately HK\$113,432,000 has been pledged to secure general banking facilities granted to the Group's jointly controlled entity.

At 30 June 2007, none of the Group's property, plant and equipment was held under finance lease (2006: HK\$Nil).

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

17. GOODWILL

	HK\$'000
COST	
At 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 and at 1 July 2006	138,422
Arising on acquisition of jointly controlled entities	49,454
Arising on increase of equity interest in subsidiaries	96,319
At 30 June 2007	284,195
AMORTIZATION	
At 1 July 2005	1,075
Elimination of accumulated amortization upon the application of HKFRS 3	(1,075)
At 30 June 2006, 1 July 2006 and 30 June 2007	–
IMPAIRMENT	
At 1 July 2005	–
Impairment loss recognized for the year	(3,361)
At 30 June 2006 and at 1 July 2006	(3,361)
Impairment loss recognized for the year	(145)
At 30 June 2007	(3,506)
CARRYING VALUES	
At 30 June 2007	280,689
At 30 June 2006	135,061

The Group tests goodwill annually for impairment in the financial year in which the acquisition takes place, or more frequently if there is indications that goodwill might be impaired.

For the year ended 30 June 2007, addition of goodwill was arisen from acquisition of jointly-controlled entities, Changde Huayou Gas Co., Limited and Hunan Huayou Natural Gas Transportation and Distribution Company Limited of approximately HK\$26,227,000 and HK\$23,227,000 respectively. In addition goodwill of approximately HK\$96,174,000 was mainly arisen from the increase of equity interest in Aptus Holdings Limited.

The recoverable amounts of cash generating units (“CGUs”) are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the year. Management estimates discount rates of 5% using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The value in use calculations is derived from cash flow projections based on the most recent financial budgets approved by management for the next 5 years. Cash flows beyond that 5 year period have been extrapolated using a steady growth rate of 7% per annum, which is based on industry growth forecasts. The directors of the Company considered no impairment loss is necessary at 30 June 2007.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

18. OTHER INTANGIBLE ASSETS

	Patent HK\$'000	Computer software in lottery systems HK\$'000	Technical know-how HK\$'000	Total HK\$'000
COST				
At 1 July 2005	–	–	519	519
Additions	1,665	–	–	1,665
Acquired on acquisition	714	4,644	–	5,358
At 30 June 2006 and 1 July 2006	2,379	4,644	519	7,542
Exchange realignment	–	269	–	269
Disposal of subsidiaries	(2,379)	–	(519)	(2,898)
At 30 June 2007	–	4,913	–	4,913
AMORTIZATION				
At 1 July 2005	–	–	519	519
Charge for the year	–	437	–	437
At 30 June 2006 and at 1 July 2006	–	437	519	956
Exchange realignment	–	25	–	25
Disposal of subsidiaries	–	–	(519)	(519)
Charge for the year	–	1,848	–	1,848
At 30 June 2007	–	2,310	–	2,310
CARRYING VALUES				
At 30 June 2007	–	2,603	–	2,603
At 30 June 2006	2,379	4,207	–	6,586

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

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

19. INTEREST IN ASSOCIATES

	2007 HK\$'000	2006 HK\$'000
Cost of unlisted investment	238	43,125
Share of post-acquisition profits	–	24,494
	238	67,619
Disposals during the year	–	(67,381)
	238	238

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
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

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. The associate was inactive and under deregistration process in the PRC. Loss for the year was amounted to HK\$2,000.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

20. PREPAID LEASE PAYMENTS

	2007 HK\$'000	2006 HK\$'000
Acquisition of jointly controlled entities	12,645	–
Exchange realignment	284	–
Additions	99	–
	13,028	–
Less: Charged to consolidated income statement for the year	(152)	–
At 30 June 2007	12,876	–
Analysis for reporting purposes:		
Non-current portion	12,496	–
Current portion	380	–
At 30 June 2007	12,876	–

The amount represented medium-term land use rights situated in the PRC and premises under operating leases in the PRC.

21. CONSTRUCTION IN PROGRESS

	2007 HK\$'000	2006 HK\$'000
Acquisition of jointly controlled entities	7,956	–
Exchange realignment	177	–
Additions	5,871	–
At 30 June 2007	14,004	–

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

22. INVENTORIES

	2007 HK\$'000	2006 HK\$'000
Raw materials and consumables	6,150	2,401
Work in progress	–	832
Finished goods	386	4,203
	6,536	7,436

All inventories are stated at cost.

23. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2007 HK\$'000	2006 HK\$'000
Trade receivables	10,861	5,760
Other receivables and prepayments	78,795	84,698
	89,656	90,458

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:

	2007 HK\$'000	2006 HK\$'000
0 to 30 days	2,934	1,241
31 to 60 days	1,893	96
61 to 365 days	5,696	3,804
Over 1 year	338	619
	10,861	5,760

Included in other receivables and prepayments are prepayments for the drilling operation of Xin Jiang Oilfield in the PRC of approximately HK\$30 million (2006: HK\$29 million).

The fair value of the Group's trade and other receivables and prepayments at 30 June 2007 was approximate to the corresponding carrying amount.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

24. TRADE AND OTHER PAYABLES

	2007 HK\$'000	2006 HK\$'000
Trade payables	10,536	1,350
Other payables	46,992	29,109
	57,528	30,459

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

	2007 HK\$'000	2006 HK\$'000
0 to 30 days	1,662	1,150
31 to 120 days	1,040	87
121 to 180 days	2,986	–
181 to 365 days	3,981	–
Over 1 year	867	113
	10,536	1,350

The fair value of the Group's trade and other payables at 30 June 2007 was approximate to the corresponding carrying amount.

Notes to the Consolidated Financial Statements

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25. BANK AND OTHER BORROWINGS

	2007 HK\$'000	2006 HK\$'000
Other loan, unsecured (note a)	16,500	22,500
Other loan, unsecured (note b)	20,551	8,427
Bank loans, secured (note c)	57,724	4,078
Bank loan, unsecured (note d)	16,947	–
	111,722	35,005

The Group's borrowings are repayable as follows:

	2007 HK\$'000	2006 HK\$'000
On demand or within one year	5,617	12,505
More than one year, but not exceeding two years	28,031	22,500
Two to five years	63,307	–
Over five years	14,767	–
	111,722	35,005
Less: Amount due within one year shown under current liabilities	(5,617)	(12,505)
Amount due after one year	106,105	22,500

The fair value of the Group's borrowings at 30 June 2007 was approximate to the corresponding carrying amount.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

25. BANK AND OTHER BORROWINGS – continued

Notes:

- a. Borrowings of approximately HK\$16,500,000 is interest bearing at 2% over prime rate, unsecured and not repayable in next twelve months.
- b. Borrowings of approximately HK\$2,857,000 is unsecured, bears interest at prime rate and not repayable in next twelve months.
Borrowings of approximately HK\$17,694,000 is unsecured, interest charged at 2.55% per annum and has fixed repayment term.
- c. Borrowings of approximately of HK\$54,232,000 is secured by gas network of a jointly controlled entity, interest charged at 5.5 - 5.7% per annum and have fixed repayment terms.

Borrowings of approximately of HK\$3,492,000 is secured by leasehold properties of a subsidiary and interest charged at 6.732% per annum and will be fully repaid in next financial year.
- d. Borrowings of approximately HK\$16,947,000 is unsecured, interest charged at 4.8% per annum and has fixed repayment term.

The details of the Group's borrowings which are denominated in foreign currencies are set out as below:

	RMB HK\$'000 equivalent
At 30 June 2007	92,365
At 30 June 2006	4,078

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26. CONVERTIBLE BONDS

On 22 November 2006, the subsidiary of the Company, Aptus Holdings Limited (“Aptus”) issued convertible bonds due on 21 November 2011 with a principal amount of HK\$234 million, which is interest-bearing at 5% per annum from and including 21 May 2008. The convertible bonds were issued for the purpose of the acquisition of a 48.33% equity interest in Changde Huayou Gas Co Limited (“Changde Joint Venture”), 33% equity interest in the Hunan Huayou Natural Gas Transportation & Distribution Company Limited (“Hunan Joint Venture”) and general working purposes.

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

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

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

Unless previously redeemed converted or purchased and cancelled, the convertible bonds will be redeemed at 150.15% of their principal amount on 21 November 2011.

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

The fair value of the liability component of the convertible bonds is estimated by computing the present value of all future cash flows discounted using prevailing market rate of interest for similar instrument with a similar credit rating and with consideration of the convertible bonds. The residual amount, representing the value of the equity component is credited to a Aptus’ reserve account.

The Directors had assessed the fair values of the early redemption rights and considered the fair value is insignificant.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

26. CONVERTIBLE BONDS – continued

The convertible bonds have been spilt between the liability and equity components as follows :

	2007 HK\$'000	2006 HK\$'000
Nominal value of convertible bonds issued	234,000	–
Equity component	(10,712)	–
Liability component at the issuance date	223,288	–
Imputed finance cost	19,856	–
Non-current liability component as at the balance sheet date	243,144	–

27. SHARE CAPITAL

	Note	Number of shares '000	HK\$'000
Authorized:			
At 1 July 2006 and 30 June 2007, shares of HK\$0.01 each		20,000,000	200,000
Issued and fully paid:			
At 1 July 2005, shares of HK\$0.01 each		482,130	4,821
Issue of shares pursuant to placing and subscription agreement		68,000	680
Shares issued on exercise of options		1,070	11
Shares issued on Share Award Scheme		48,730	488
Shares issued pursuant to sale and purchase agreement		24,123	241
At 30 June 2006, shares of HK\$0.01 each		624,053	6,241
Bonus issue on 1 November 2006	(a)	312,026	3,120
At 30 June 2007, shares of HK\$0.01 each		936,079	9,361

Note:

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

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28. SHARE-BASED PAYMENT TRANSACTIONS

Pre-IPO Share Option Scheme

As at 30 June 2007, 40,000,000 options were granted under the Pre-IPO Share Option Scheme of which 37,000,000 options had been exercised and 3,000,000 options had been lapsed.

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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28. SHARE-BASED PAYMENT TRANSACTIONS – continued

Share Option Scheme – continued

On 23 November 2006, 62,400,000 share options were granted to 7 directors and 15 eligible participants, which entitled them to subscribe for a total of 62,400,000 ordinary shares of the Company. There were 80,010,000 outstanding share options brought forward from 1 July 2006, out of which 1,200,000 share options have been lapsed. Thus there were a total of 141,210,000 share options outstanding as at 30 June 2007.

2007

Categories of grantees	Date of grant	Exercise price HK\$	Number of share options at 1 July 2006 '000	Granted during the year '000	Exercised during the year '000	Lapsed during the year '000	Number of share options at 30 June 2007 '000	Exercise period of share options
Cheung Kwai Lan	23/11/06	0.62	–	1,560	–	–	1,560	23/11/2006 – 17/10/2012
	23/11/06	0.62	–	1,560	–	–	1,560	23/5/2007 – 17/10/2012
	23/11/06	0.62	–	3,120	–	–	3,120	23/11/2007 – 17/10/2012
Chan Tung Mei	23/11/06	0.62	–	1,560	–	–	1,560	23/11/2006 – 17/10/2012
	23/11/06	0.62	–	1,560	–	–	1,560	23/5/2007 – 17/10/2012
	23/11/06	0.62	–	3,120	–	–	3,120	23/11/2007 – 17/10/2012
Chan Ting	23/11/06	0.62	–	1,560	–	–	1,560	23/11/2006 – 17/10/2012
	23/11/06	0.62	–	1,560	–	–	1,560	23/5/2007 – 17/10/2012
	23/11/06	0.62	–	3,120	–	–	3,120	23/11/2007 – 17/10/2012
Lau Hin Kun	18/8/2004	0.427 (adjusted)	1,600	–	–	–	1,600	19/8/2004 – 17/10/2012
	23/11/2006	0.62	–	350	–	–	350	23/11/2006 – 17/10/2012
	23/11/2006	0.62	–	350	–	–	350	23/5/2007 – 17/10/2012
	23/11/2006	0.62	–	700	–	–	700	23/11/2007 – 17/10/2012

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

28. SHARE-BASED PAYMENT TRANSACTIONS – continued

Share Option Scheme – continued

Categories of grantees	Date of grant	Exercise price HK\$	Number of share options at 1 July 2006 '000	Granted during the year '000	Exercised during the year '000	Lapsed during the year '000	Number of share options at 30 June 2007 '000	Exercise period of share options
Tian He Nian	23/11/2006	0.62	–	260	–	–	260	23/11/2006 – 17/10/2012
	23/11/2006	0.62	–	260	–	–	260	23/5/2007 – 17/10/2012
	23/11/2006	0.62	–	530	–	–	530	23/11/2007 – 17/10/2012
Zhao Zhi Ming	23/11/2006	0.62	–	260	–	–	260	23/11/2006 – 17/10/2012
	23/11/2006	0.62	–	260	–	–	260	23/5/2007 – 17/10/2012
	23/11/2006	0.62	–	530	–	–	530	23/11/2007 – 17/10/2012
To Yan Ming, Edmond	23/11/2006	0.62	–	260	–	–	260	23/11/2006 – 17/10/2012
	23/11/2006	0.62	–	260	–	–	260	23/5/2007 – 17/10/2012
	23/11/2006	0.62	–	530	–	–	530	23/11/2007 – 17/10/2012
Shaw Kyle Arnold Junior	19/10/2004	0.433 (adjusted)	1,200	–	–	(1,200)	–	20/10/2004 – 17/10/2012
Eligible participants	18/8/2004	0.427 (adjusted)	37,000	–	–	–	37,000	19/8/2004 – 17/10/2012
Eligible participants	22/3/2006	1.90 (adjusted)	40,210	–	–	–	40,210	22/3/2006 – 22/3/2008
Eligible participants	23/11/2006	0.62	–	39,130	–	–	39,130	23/11/2006 – 17/10/2012
Total			80,010	62,400	–	(1,200)	141,210	

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

28. SHARE-BASED PAYMENT TRANSACTIONS – continued

Share Option Scheme – continued

The closing prices of the Company's shares on 18 August 2004, 19 October 2004, 22 March 2006 and 23 November 2006, the dates of grant of the share options, were HK\$0.64 (adjusted to HK\$0.427 due to issue of bonus shares on 1 November 2006), HK\$0.65 (adjusted to HK\$0.433 due to issue of bonus shares on 1 November 2006), HK\$2.90 (adjusted to HK\$1.933 due to issue of bonus shares on November 2006) and HK\$0.63, respectively.

The exercise in full of the share options would, under the present capital structure of the Company, result in the issue of 141,210,000 additional ordinary shares of the Company at additional share capital of HK\$1,412,000 and share premium of HK\$130,157,100.

At 30 June 2007, the number of the shares in respect of which option had been granted and remained outstanding under the scheme was 15.09% (2006: restated to 8.55% due to issue of bonus share) of the shares of the Company in issue at that date.

A nominal consideration of HK\$1 or RMB1 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\$22.

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

28. SHARE-BASED PAYMENT TRANSACTIONS – continued

Share Option Scheme – continued

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
Lau Hin Kun	18/8/2004	0.64	1,600	–	–	1,600	19/8/2004 – 17/10/2012
Shaw Kyle Arnold Junior	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	

During the year ended 30 June 2007, options were granted on 23 November 2006. The estimated fair value of the options granted is approximately HK\$11,282,000.

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

	Share option grant date				
	22 March 2006	23 November 2006			
Share price on grant date (HK\$)	2.90	0.70	0.70	0.70	0.70
Exercise price (HK\$)	2.85	0.62	0.62	0.62	0.62
Expected volatility	83.83%	74.67%	74.67%	74.67%	74.67%
Expected life	2 years	1 year	2 years	2.5 years	3 years
Risk-free rate	4%	3.66%	3.68%	3.69%	3.709%
Expected dividend yield	0.69%	0%	0%	0%	0%

Expected volatility for the options granted 22 March 2006 and 23 November 2006 was determined by using the historical volatility of the Company's share price over the previous 2 years and 1 to 3 years respectively. 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 Group recognized the total expenses of approximately HK\$28,434,000 for the year ended 30 June 2007 (2006: HK\$16,192,000) 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\$54,913,000 (2006: HK\$23,207,000) into the consolidated income statement.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

29. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Acquisition of jointly controlled entities

On 6 February 2007, the Group acquired a 48.33% equity interest in Changde Joint Venture and 33% equity interest in Hunan Joint Venture at a cash consideration of approximately HK\$131,066,000 and HK\$79,211,000 respectively.

Set out below is the details of Changde Joint Venture and Hunan Joint Venture upon completion of the acquisition and goodwill of approximately HK\$26,227,000 and HK\$23,227,000 was recorded in these transactions.

	Changde Joint Venture HK\$'000	Hunan Joint Venture HK\$'000	Total HK\$'000
NET ASSETS ACQUIRED			
Property, plant and equipment	66,857	114,686	181,543
Prepaid lease payments	12,645	–	12,645
Inventories	1,966	1,878	3,844
Construction in progress	7,956	–	7,956
Accounts receivables	429	–	429
Deposits, prepayments and other receivables	3,617	503	4,120
Bank balances and cash	63,336	26,039	89,375
Accounts payables	(6,205)	(12,048)	(18,253)
Accruals and others payables	(3,100)	(1,750)	(4,850)
Tax payable	(1,568)	(5)	(1,573)
Borrowings	(40,357)	(73,319)	(113,676)
Minority interests	(737)	–	(737)
	104,839	55,984	160,823
Goodwill on acquisition	26,227	23,227	49,454
Total consideration	131,066	79,211	210,277
SATISFIED BY			
Cash consideration	131,066	79,211	210,277
Net cash outflow arising on acquisition:			
Cash consideration	(131,066)	(79,211)	(210,277)
Bank balances and cash acquired	63,336	26,039	89,375
Net outflow of cash and cash equivalents in respect of the acquisition of jointly controlled entities	(67,730)	(53,172)	(120,902)

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

29. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT – continued

The acquiree's carrying amount of net assets before combination approximates to its fair values. Accordingly, no fair value adjustments are required. Changde Joint Venture contributed to the Group's profit before taxation by approximately HK\$1,348,000 between the date of acquisition and the balance sheet date. Hunan Joint Venture contributed to the Group's loss before taxation of HK\$5,204,000 between the date of acquisition and the balance sheet date.

Disposal of subsidiaries

For the year ended 30 June 2007, the Group discontinued its business of (i) manufacturing and sales of honey mead and (ii) operations of a restaurant. The subsidiaries disposed were Wuhu Bee & Bee Natural Food Company Limited ("Wuhu B&B"), Zhuhai Free Trade Zone Bee & Bee Natural Food Company Limited ("Zhuhai B&B") and La Cucina Italian (Macau) Limited ("La Cucina").

In additions, the Company disposed Shenzhen Bozone Mobile Technology IT Co., Limited ("Bozone Mobile") and Guangzhou Latech Computer Technology Co., Limited ("GZ Latech") to streamline the Group's structure.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

29. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT – continued

	Wuhu B&B and Zhuhai B&B	GZ Latech	La Cucina	Bozone Mobile	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Property, plant and equipment	1,825	25	2,109	35	3,994
Deposits	3,756	–	–	–	3,756
Technical know-how	–	–	–	2,379	2,379
Inventories	2,096	2,904	114	1,429	6,543
Accounts receivables	1,087	–	–	54	1,141
Deposits, prepayments and other receivables	172	2,874	146	1,961	5,153
Bank balances and cash	47,237	33	461	208	47,939
Accounts payables	–	–	–	(180)	(180)
Accruals and other payables	(2,829)	(1,142)	(3,370)	(5,508)	(12,849)
Tax payable	(84)	–	–	–	(84)
Net assets (liabilities)	53,260	4,694	(540)	378	57,792
Less: Minority interests	(4,760)	(2,300)	–	(321)	(7,381)
	48,500	2,394	(540)	57	50,411
Less: Release of translation reserve	(1,773)	(115)	–	–	(1,888)
Net amount of assets (liabilities)	46,727	2,279	(540)	57	48,523
Gain (loss) on disposal	29,273	864	555	(57)	30,635
Total consideration	76,000	3,143	15	–	79,158
Satisfied by:					
Cash	76,000	3,143	15	–	79,158
Net cash inflow arising on disposal:					
Cash consideration	76,000	3,143	15	–	79,158
Bank balances and cash disposed of	(47,237)	(33)	(461)	(208)	(47,939)
	28,763	3,110	(446)	(208)	31,219

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

29. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT – continued

Acquisition of subsidiaries

For the year ended 30 June 2006, 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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

29. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT – 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.

Major non-cash transactions

- During the year, the Group incurred share option expenses of approximately HK\$83,347,000.
- During the year, the Group incurred imputed interest on convertible bonds of approximately HK\$19,856,000.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

30. CONTINGENT LIABILITIES

The Company provided corporate guarantees to the extent of approximately HK\$26,500,000 (2006: HK\$42,500,000) to banks and financial institution to secure general banking facilities granted to certain subsidiaries.

The total facilities utilized by the Group at 30 June 2007 amounted to approximately HK\$16,500,000 (2006: HK\$26,578,000).

31. OPERATING LEASE COMMITMENTS

The Group as lesser

As at 30 June 2007, the Group had commitments for future minimum lease payments in respect of rented premises under non-cancellable operating leases which fall due as follows:

	2007 HK\$'000	2006 HK\$'000
Within one year	2,149	1,824
In the second to fifth year inclusive	2,797	41
	4,946	1,865

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

The Group as lessor

As at 30 June 2007, the Group had contracted with tenants for the following minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2007 HK\$'000	2006 HK\$'000
Within one year	129	–
In the second to fifth year inclusive	246	–
	375	–

Leases are negotiated for an average term of 3 years.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

32. CAPITAL COMMITMENTS

	2007 HK\$'000	2006 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment		
– authorized but not contracted for	–	–
– contracted for but not provided in the financial statements	–	559
	–	559
Capital expenditure in respect of the capital injection to a subsidiary		
– authorized but not contracted for	39,956	37,768
	39,956	38,327

33. RETIREMENT BENEFITS SCHEME

With the introduction of Mandatory Provident Fund Scheme (the “MPF Scheme”) in December 2000 in Hong Kong, the Group has arranged its employees in Hong Kong to join the MPF Scheme. The retirement benefits scheme contributions charged to the 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\$253,000 (2006: HK\$207,000) 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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

34. PROVISION FOR LONG SERVICE PAYMENTS

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

The Group had no significant provision for long service payments at 30 June 2007 (2006: Nil).

35. PLEDGE OF ASSETS

At 30 June 2007, the Group has pledged its bank deposits of approximately HK\$5,000,000 (2006: HK\$13,308,000) and leasehold property at net book value of approximately HK\$5,834,000 (2006: HK\$5,918,000) approximately as securities for the general banking facilities granted to the Group. As at 30 June 2007, the 100% of the issued share capital of Good United Management Limited ("GUM"), a subsidiary of the Company, was pledged in favors of the holder(s) of the convertible bonds issued by Aptus on 22 November 2006. GUM held 70% equity interest in CNPC Huayou Cu Energy Investment Co. Limited, which owned profit sharing rights on Xin Jiang Oilfield. In addition, borrowings of approximately HK\$54,232,000 has been secured by gas network of a jointly controlled entity, Hunan Joint Venture.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

36. 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:

	2007 Number of shares '000	2006 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	–	–

	2007 HK\$'000	2006 HK\$'000
Fair value of shares held as at 30 June	–	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 2007

37. COMPARATIVE FIGURES

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

38. 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:

	2007 HK\$'000	2006 HK\$'000
Short-term benefits	11,277	8,486
Post-employment benefits	108	84
	11,385	8,570

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

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the subsidiaries at 30 June 2007 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		Principal activities
			Direct	Indirect	
Precise Result Profits Limited	British Virgin Islands	Ordinary share US\$1	–	100%	Investment holding
Aptus Holdings Limited	Cayman Islands	Ordinary shares HK\$16,978,814	–	57.23%	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

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

39. 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		Principal activities
			Direct	Indirect	
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 Group Holdings Limited	Hong Kong	Ordinary share HK\$1	–	100%	Investment holding
Rain International Company Limited	Hong Kong	Ordinary shares HK\$1,000,000	–	100%	Distribution of natural supplementary products
Step Gain Limited	British Virgin Islands	Ordinary shares US\$10	–	100%	Investment holding
雙遼市步得稭稈科技有限公司# (Shuang Liao City Step Gain Technology Limited†)	PRC	Registered capital HK\$3,400,000	–	100%	Animal feed (玉米稭飼料、複合肥料、 作物稭稈)
Greatest Luck Limited	British Virgin Islands	Ordinary share US\$1	–	100%	Investment holding

Notes to the Consolidated Financial Statements

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39. 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		Principal activities
			Direct	Indirect	
深圳生港蜂業有限公司# (B & B (Shenzhen) Limited†)	PRC	Registered capital US\$6,000,000	100%	–	Investment holding
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
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技術有限公司# (Harbin Longjiang Fengcai Technology Co. Limited†)	PRC	Registered capital RMB500,000	–	33.15%	Provision of lottery-related hardware and software systems

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

† For identification only

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

40. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

At 30 June 2007, the Group had interests in the following significant jointly controlled entities:

Name of entity	Form of business structure	Place of establishment/ and operations	Class of capital	Proportion of Nominal value of registered capital held by the Group %	Principal activities
(a) Jointly controlled entities:					
Changde Huayou Gas Co., Limited 常德華油燃氣有限公司	Sino-foreign equity joint venture	PRC	Registered	48.33%	Development and management of natural gas pipelines and distribution facilities in PRC
Hunan Huayou Natural Gas Transportation and Distribution Company Limited 湖南華油天然氣輸配有限責任公司	Sino-foreign equity joint venture	PRC	Registered	33%	Construction and development of natural gas pipeline and related consultation services
(b) Principal subsidiary of a jointly controlled entity:					
Linli Huayou Gas Co., Limited 臨澧華油燃氣有限公司	Limited liability company	PRC	Registered	33.83%	Distribution of natural gas

Note:

- (a) The Group holds 48.33% of the issued capital of Changde Joint Venture and 33% of the issued capital of Hunan Joint Venture. Pursuant to the shareholder's agreement in relation to the acquisition of Changde Joint Venture and Hunan Joint Venture, each shareholder has a veto right relating to certain financial and operating decisions, and is therefore considered as having joint control over Changde Joint Venture and Hunan Joint Venture.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

40. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES – continued

The following amounts represent the Group's proportionate share of the assets, liabilities, revenue and expenses of the jointly controlled entities and are included in the consolidated balance sheet and consolidated income statements as a result of proportionate consolidation:

	2007 HK\$'000	2006 HK\$'000
Current assets	55,654	–
Non-current assets	209,468	–
Current liabilities	17,961	–
Non-current liabilities	86,748	–
Minority interests	750	–

	Date of acquisition* to 30 June 2007 HK\$'000	2006 HK\$'000
Revenue	14,743	–
Expenses	(19,057)	–
Minority interests	(3)	–
Loss for the period	(4,317)	–

* The dates of acquisition of Hunan Joint Venture and Changde Joint Venture are 5 February 2007 and 6 February 2007, respectively.

Financial Summary

RESULTS

	For the year ended 30 June				
	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000
Revenue	91,461	81,608	189,131	192,971	88,337
Cost of sales	(64,471)	(55,284)	(142,875)	(141,394)	(54,913)
Gross profit	26,990	26,324	46,256	51,577	33,424
Other revenue	5,911	34,282	5,112	167	536
Selling and distribution costs	(4,993)	(3,718)	(12,747)	(8,865)	(7,600)
Administrative expenses	(136,045)	(111,252)	(18,884)	(11,050)	(6,519)
(Loss) gain on disposal of subsidiaries and an associate	30,635	(13,106)	6,945	–	–
Loss on disposal of a jointly controlled entity	–	–	(2,789)	–	–
Finance costs	(24,537)	(3,005)	(1,849)	(691)	(1,569)
Share of results of an associate	–	18,830	17,653	–	–
(Loss) profit before income tax	(102,039)	(51,645)	39,697	31,138	18,272
Income tax expenses	(1,442)	(6,717)	(9,086)	(1,861)	69
(Loss) profit for the year	(103,481)	(58,362)	30,611	29,277	18,341

ASSETS AND LIABILITIES

	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000
Total assets	852,021	519,414	248,351	187,222	85,464
Total liabilities	(413,816)	(65,563)	(77,580)	(44,932)	(16,627)
Net assets	438,205	453,851	170,771	142,290	68,837
Equity attributable to equity holders of the Company	425,697	397,958	160,642	137,466	64,510
Minority interests	12,508	55,893	10,129	4,824	4,327
Total equity	438,205	453,851	170,771	142,290	68,837

Note:

- The results of the Group for the years ended 30 June 2006 and 2007 are those set out on page 32 of the financial statements.