



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

Third Quarterly Report 2007/2008



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## RESULTS

The board of directors (the “Board”) of China Vanguard Group Limited (the “Company”) announces that the unaudited consolidated results of the Company and its subsidiaries (together the “Group”) for the three months and nine months ended 31 March 2008, together with the comparative unaudited figures for the corresponding period in 2007, are as follows:

	Notes	(Unaudited) Three months ended 31 March		(Unaudited) Nine months ended 31 March	
		2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
<b>Continuing operations</b>					
Revenue	2	39,757	24,114	114,893	58,541
Cost of sales		(28,969)	(14,410)	(79,598)	(37,742)
Gross profit		10,788	9,704	35,295	20,799
Other revenue		646	276	2,474	1,898
Selling and distribution costs		(3,412)	(673)	(11,170)	(2,114)
Administrative expenses		(8,501)	(32,863)	(38,308)	(117,396)
Loss from continuing operations		(479)	(23,556)	(11,709)	(96,813)
Finance costs		(10,202)	(8,042)	(27,915)	(12,155)
Loss on deemed disposal of a subsidiary of a jointly controlled entity		-	-	(7)	-
Share of results of an associate		(59)	-	(42)	-
Loss before income tax		(10,740)	(31,598)	(39,673)	(108,968)
Income tax expenses	3	(959)	(744)	(1,957)	(1,137)
Loss for the period from continuing operations		(11,699)	(32,342)	(41,630)	(110,105)
<b>Discontinued operations</b>					
Profit for the period from discontinued operations		-	-	-	29,342
<b>Loss for the period</b>		<b>(11,699)</b>	<b>(32,342)</b>	<b>(41,630)</b>	<b>(80,763)</b>
Attributable to:					
Equity holders of the Company		(12,662)	(21,327)	(43,895)	(48,251)
Minority interests		963	(11,015)	2,265	(32,512)
		(11,699)	(32,342)	(41,630)	(80,763)
Loss per share	5				
From continuing and discontinued operations					
Basic		(1.33) cents	(2.28) cents	(4.66) cents	(5.15) cents
From continuing operations					
Basic		(1.33) cents	(2.28) cents	(4.66) cents	(8.29) cents

*Notes:*

**1. Basis of preparation and accounting policies**

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

The unaudited consolidated results have been prepared under the historical cost convention, except for certain financial instruments which are measured at fair values.

The accounting policies and methods of computation used in the preparation of these unaudited consolidated results are consistent with those applied in the annual financial statements for the year ended 30 June 2007.

**2. Revenue**

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

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

**3. Income tax expenses**

No provision for Hong Kong profits tax has been made as the Group did not have any assessable profits arising in Hong Kong for the three months and nine months ended 31 March 2008 (three months and nine months ended 31 March 2007: Nil).

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

**4. Dividend**

The Board does not recommend the payment of any dividend for the three months and nine months ended 31 March 2008 (three months and nine months ended 31 March 2007: Nil).

## 5. Loss per share

### *From continuing and discontinued operations*

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

#### Loss

	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>31 March</b>		<b>31 March</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss for the purposes of basic loss per share	<b>(12,662)</b>	(21,327)	<b>(43,895)</b>	(48,251)

#### Number of shares

	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>31 March</b>		<b>31 March</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>
Weighted average number of ordinary shares for the purposes of basic loss per share	<b>951,302</b>	936,079	<b>942,132</b>	936,079
Effect of dilutive potential ordinary shares:				
Share options	<b>24,021</b>	923	<b>20,969</b>	23,987
Weighted average number of ordinary shares for the purposes of diluted (loss)/earnings per share	<b>975,323</b>	937,002	<b>963,101</b>	960,066

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

***From continuing operations***

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

Loss figures are calculated as follows:

	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>31 March</b>		<b>31 March</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Loss for the period attributable to equity holders of the Company	<b>(12,662)</b>	(21,327)	<b>(43,895)</b>	(48,251)
Less:				
Profit for the period from discontinued operations	-	-	-	29,342
Loss for the purposes of basic loss per share from continuing operations	<b>(12,662)</b>	(21,327)	<b>(43,895)</b>	(77,593)

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

No diluted loss per share has been presented in both periods as the outstanding share options of the Company are anti-dilutive since their exercise would result in a decrease in loss per share.

***From discontinued operations***

Basic earnings per share for the discontinued operations is HKnil cent per share and HKnil cent per share respectively for the three months and nine months ended 31 March 2008 (three months and nine months ended 31 March 2007: HKnil cent per share and HK3.13 cents per share) and diluted earnings per share for the discontinued operations is HKnil cent per share and HKnil cent per share respectively for the three months and nine months ended 31 March 2008 (three months and nine months ended 31 March 2007: HKnil cent per share and HK3.06 cents per share), based on the profit for the period from the discontinued operations of HK\$nil and HK\$nil for the three months and nine months ended 31 March 2008 (three months and nine months ended 31 March 2007: HK\$nil and HK\$29,342,000 respectively) and the denominators detailed above for both basic and diluted loss per share.

## 6. Movement of reserves

	(Unaudited) Share premium HK\$'000	(Unaudited) Equity component of convertible bonds HK\$'000	(Unaudited) Employee share-based compensation reserve HK\$'000	(Unaudited) Share option reserve HK\$'000	(Unaudited) Translation reserve HK\$'000	(Unaudited) Special Reserve HK\$'000	(Unaudited) Retained profits/ (accumulated loss) HK\$'000	(Unaudited) Total HK\$'000
At 1 July 2007	286,884	10,712	35,572	122,746	8,136	(1)	(47,713)	416,336
Exchange differences arising from translation of financial statements of overseas operations	-	-	-	-	19,792	-	-	19,792
Shares issued on exercise of options	7,691	-	-	-	-	-	-	7,691
Recognition of equity-settled share based payments	-	-	-	8,537	-	-	-	8,537
Transfer from share option reserve to accumulated loss due to lapse of share option	-	-	-	(34,208)	-	-	34,208	-
Net loss for the period	-	-	-	-	-	-	(43,895)	(43,895)
At 31 March 2008	294,575	10,712	35,572	97,075	27,928	(1)	(57,400)	408,461
At 1 July 2006	290,004	-	35,572	39,399	1,935	(1)	24,808	391,717
Issue of bonus shares	(3,120)	-	-	-	-	-	-	(3,120)
Exchange differences arising from translation of financial statements of overseas operations	-	-	-	-	3,205	-	-	3,205
Issue of convertible bonds	-	10,712	-	-	-	-	-	10,712
Recognition of equity-settled share based payments	-	-	-	73,869	-	-	-	73,869
Net loss for the period	-	-	-	-	-	-	(48,251)	(48,251)
At 31 March 2007	286,884	10,712	35,572	113,268	5,140	(1)	(23,443)	428,132

## **7. Events after the balance sheet date**

The transaction for the acquisition of the entire issued share capital of Grand Promise International Limited (“Grand Promise”) has been approved by the Company’s shareholders in the extraordinary general meeting held on 3 April 2008. On 11 April 2008, the Company announced the completion of the acquisition.

Grand Promise, via its subsidiary, Birdview Group Limited, holds a 49% interest in China Culture Development Digital Technology Co., Ltd. (“CCDDT”), a sino-foreign joint venture company established in the People’s Republic of China (“PRC”). The MOC Market Development Center, being appointed by the government to develop, establish and maintain the Karaoke CMS and has granted to CCDDT the exclusive rights to base on the Karaoke CMS to develop karaoke programmes copyrights transaction services and other related value-added services for karaoke venues.

Karaoke CMS is a public services platform that keeps track of karaoke programmes played in karaoke venues while also provide a number of value-added services such as product advertisement and promotion services.

For further details on this acquisition, please refer to the circular of the Company dated 14 March 2008.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Background**

The Company, through various subsidiaries, is contracted to provide software, hardware and other support services to the welfare lottery industry in various provinces and cities in the PRC. Further, the Group is also involved in the distribution of natural products. Via its listed subsidiary, Aptus Holdings Limited (“Aptus”), the Group is engaged in the oil and gas related business in the PRC.

### **A major initiative undertaken in the fiscal third quarter**

The Company (or “CVG”) has always been actively seeking new business expansion opportunities with a view to increase the value of the Group. On 17 January 2008, CVG announced the signing of an US\$200,000,000 Share Purchase Agreement to acquire a 100% stake in Grand Promise International Limited (“Grand Promise”). On 11 April 2008, the Group announced the completion of the acquisition. This gives CVG an effective 49% interest in China Culture Development Digital Technology Co., Ltd. (“CCDDT”), a sino-foreign joint venture company established in the PRC. Through the acquisition, the Group is now engaged in operating a nationwide public service platform karaoke content management service system in the PRC (“Karaoke CMS”) in an exclusive arrangement with the MOC Market Development Center for the life of the



joint venture (i.e. 30 years), such platform can keep track of karaoke programmes played in the karaoke venues. IP Owners can utilise the Karaoke CMS public service platform to facilitate copyright transactions. In return, CCDDT will receive a system usage fee according to the copyright transactions fee collected. Further to this, the Karaoke CMS public service platform can also provide a number of value-added services such as product advertisement and promotion services.

As a condition of the acquisition, CVG also assumed Grand Promise's outstanding US\$35,000,000 convertible notes which were issued US\$25,000,000 to Liberty Harbor Master Fund I, L.P. ("Liberty Harbor") and US\$10,000,000 to Evolution Master Fund Ltd Spc, Segregated Portfolio M, ("Evolution"). Liberty Harbor is a multi-strategy investment fund with an approximately US\$2.5 billion of equity capital under management. It invests Goldman Sach's proprietary capital as well as capital from third party professional investors and high net worth individuals. Liberty Harbor is advised by GS Investment Strategies, LLC. Evolution is an Asia-focused fund. Its investment managers are Evo Capital Management Asia Ltd and Evolution Capital Management LLC. The Grand Promise convertible notes have now become US\$25,000,000 and US\$10,000,000 of CVG convertible notes which are exchangeable into CVG shares at a price of HK\$0.80 per share.

## Financial review

For the nine months ended 31 March 2008, the Group's unaudited consolidated revenue was approximately HK\$114,893,000, which represented an increase of approximately 96.26% as compared to approximately HK\$58,541,000 (excluding the revenue from discontinued operations of approximately HK\$929,000) for the nine months ended 31 March 2007. The increase in revenue of HK\$56,352,000 was mainly due to the increase in contributions from Changde Huayou Gas Co., Ltd ("Changde Joint Venture") and Hunan Huayou Natural Gas Transportation and Distribution Limited ("Hunan Joint Venture") by approximately HK\$44 million and the increase in sales of edible oil products by HK\$12.2 million over the corresponding period.

The gross profit for the nine months ended 31 March 2008 increased by approximately 69.7% to approximately HK\$35,295,000 (for the nine months ended 2007: approximately HK\$20,799,000). Approximately HK\$21,741,000 of gross profit was generated by the lottery-related operations and approximately HK\$12,324,000 of gross profit was generated by the gas sector operations. The gross profit ratio decreased from 35.53% to 30.72% was mainly due to the lower gross profit ratio of the gas sector and edible oil products operations but with high increase in revenue compare with previous corresponding period.

Loss for the nine months ended 31 March 2008 was approximately HK\$41,630,000 (for the nine months ended 2007: approximately HK\$80,763,000). There was an approximate 48.45% decrease in the loss for the nine months ended 31 March 2008 over the last corresponding period. The bulk of the decrease can be explained by the net effect of the following items (i) decrease in share option expenses by approximately HK\$65.3 million from approximately HK\$73.8 million recorded for the nine months ended 31 March 2007 to approximately HK\$8.5 million for the nine months ended 31 March 2008; (ii) increase in imputed finance cost for the convertible bonds of Aptus by approximately HK\$13 million to approximately HK\$22.6 million for the nine months ended 31 March 2008 (for the nine months ended 31 March 2007: approximately HK\$9.6 million); (iii) no profit contribution from discontinued operations against approximately HK\$29.3 million in the previous corresponding period and (iv) decrease in legal and professional fee from approximately HK\$14.4 million (mainly incurred for the issuance of convertible bonds of Aptus) in nine months ended 31 March 2007 to approximately HK\$1.9 million in the period under review.

## **Business review**

During the period under review, the Group continued to work on the development of its welfare lottery related operations and oil and gas related businesses in the PRC to improve the overall financial position of the Group.

Shenzhen Bozone IT Co., Limited (“Bozone”), our flagship vehicle in the PRC traditional social welfare lottery space, contributed approximately HK\$21,741,000 of gross profit to the Group for the nine months ended 31 March 2008 against approximately HK\$17,530,000 previously. Bozone is continuing to further expand its existing operations in the areas of 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. For the nine months ended 31 March 2008 Bozone operated in Heilongjiang, Zhejiang and Shenzhen.

With regards to Aptus, operationally, the results continue to predominately reflect the trading of edible oil products and the distribution of natural gas. While drilling at the Group’s Xin Jiang Oilfield is in progress, commercial production of crude has yet to commence as the project is still in its development stage.

On the natural gas side, our 48.33% owned Changde Huayou Gas Co., Ltd (“Changde Joint Venture”) (a city level natural gas pipeline project) and 33.0% owned Hunan Huayou Natural Gas Transportation and Distribution Company Limited (“Hunan Joint Venture”) (a provincial level natural gas pipeline project) contributed a combined turnover

of approximately HK\$48 million to the Group for the nine months ended 31 March 2008 (for the nine months ended 31 March 2007: approximately HK\$4 million). Gross profit for the nine months ended 31 March 2008 was approximately HK\$12.3 million (for the nine months ended 31 March 2007: approximately HK\$0.6 million).

The Changde Joint Venture has completed about 657 km of city-level pipelines connecting approximately 139 commercial users, 7 industrial users, 90 public welfare establishments and nearly 50,000 residential users to its network.

The Hunan Joint Venture has completed the construction of its main pipelines (about 188 km in total) branching out to reach 7 city-level gas distribution stations in the province of Hunan.

## **Future outlook and prospects**

### *A major new piece added*

On 11 April 2008, the Group completed a major US\$200,000,000 acquisition comprising the entire share capital of Grand Promise giving CVG an effective 49% interest in China Culture Development Digital Technology Co., Ltd. ("CCDDT"), a sino-foreign joint venture company established in the PRC. The MOC Market Development Center, being appointed by the government to develop, establish and maintain the Karaoke CMS and has granted to CCDDT the exclusive rights to base on the Karaoke CMS to develop karaoke programmes copyrights transaction services and other related value-added services for karaoke venues.

Karaoke CMS is a public services platform that keeps track of karaoke programmes played in karaoke venues while also provide a number of value-added services such as product advertisement and promotion services.

The business model of the CCDDT Group (includes CCDDT and its subsidiary and jointly controlled entity) is that IP Owners appoint the CCDDT Group to utilize the programme-played statistic for calculations of copyright fee. CCDDT Group will be paid a system usage fee which is a portion of the copyright fees paid to the IP Owners.

A point to note is that karaoke venues, whether connected or not connected to the Karaoke CMS, will all be paying copyright fee. In the transition, karaoke venues not yet connected would be paying the full fees based on the sample data drawn on similar location, size and profile while karaoke venues connected would pay a discounted fee based on their actual usage accordingly to the data collected by the Karaoke CMS.

At the time of writing this report, approximately 400 karaoke venues in at least 16 provinces or direct jurisdiction cities have installed the Karaoke CMS, thus providing a starting basis of sample data.

The Karaoke CMS is targeted to be rolled out to karaoke venues in approximately 25 provinces and cities and IP owners will start collecting copyright fees from karaoke venues throughout the PRC. By end of 2009, the Karaoke CMS will be completely rolled out to all the provinces in the PRC.

Currently, the copyright fees are capped at RMB12 per room per day. There are circa 52,100 dedicated karaoke venues in China with a total of circa 2.3 million rooms.

The Company believes the Grand Promise Group will enhance the future growth of the Group's business activities and enable it to maximize returns to the shareholders. The tapping into this new business line will also broaden the Group's revenue base and help to diversify the overall business risks of the Group.

*Also working hard to grow the existing operations*

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 moving to commercial production at the Xin Jiang Oilfield and scaling up operation at 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.

On the natural gas side, the short term objective of the Group is to continue the expansion of the pipeline network of the Changde Joint Venture (city level natural gas pipeline project) with a target to extend its reach to about 4,000 more commercial, industrial, welfare establishments and residential users in the city before the end of this fiscal year to take advantage of the fast growing demand in the city of Changde.

As for the Hunan Joint Venture (provincial level natural gas pipeline project), it is the Group's aim to further expand the existing pipelines to branch out to at least one more city-level gas distribution station before the end of the fiscal year to increase the sale of natural gas.

Meanwhile, in additions 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 considered to have substantial growth potential in light of the PRC government's desire to increase the proportion of gas utilization, a more environmental friendly energy source, in the country's energy mix. The objective of management is to develop Aptus into a major diversified oil and gas group and we will continue to seek out every opportunity to expand further.

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

As at 31 March 2008, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated 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**

Name of Directors	Company/Name of associated corporation	Number of ordinary shares held				Approximate percentage of shareholding
		Interest in controlled corporation	Beneficial owner	Family interest	Total interest	
Cheung Kwai Lan	Company	361,695,000 (Note 1)	2,070,000 (Note 2)	–	363,765,000	38.24%
Chan Tung Mei	Company	–	–	363,765,000 (Notes 1 & 2)	363,765,000	38.24%

Name of Directors	Company/Name of associated corporation	Number of ordinary shares held				Approximate percentage of shareholding
		Interest in controlled corporation	Beneficial owner	Family interest	Total interest	
Lau Hin Kun	Company	-	575,000	-	575,000	0.06%
Cheung Kwai Lan	Best Frontier Investments Limited	-	909	1 <i>(Note 3)</i>	910	-
Chan Tung Mei	Best Frontier Investments Limited	-	1	909 <i>(Note 3)</i>	910	-
Cheung Kwai Lan	Aptus Holdings Limited	971,746,428 <i>(Note 4)</i>	-	-	971,746,428	57.20%
Chan Tung Mei	Aptus Holdings Limited	-	-	971,746,428 <i>(Note 4)</i>	971,746,428	57.20%

*Notes:*

1. The 361,695,000 shares are owned by Best Frontier Investments Limited ("Best Frontier") which is owned as to 99.89% and 0.11% by respectively Madam Cheung Kwai Lan and Mr. Chan Tung Mei who are spouse to each other. Accordingly, Madam Cheung Kwai Lan is deemed to be interested in the shares held by Best Frontier and Mr. Chan Tung Mei is deemed to be interested in all 361,695,000 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 31 March 2008, Best Frontier is interested in approximately 38.02% of the issued share capital of the Company which in turn holds directly 100% of 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, up to 48,750,000 Aptus shares have been lent to Evolution Master Fund Ltd. Spc, Segregated Portfolio M pursuant to a stock lending agreement dated 22 November 2006.

## (2) Share options of the Company

The Company has adopted a share options scheme on 18 October 2002 (the "Share Option Scheme"), under which the Board may, at its discretion, invite any persons who satisfies the criteria of the Share Option Scheme, to take up options to subscribe for the shares in the Company:

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

Name of Directors	Date of grant	Exercise Price HK\$	Outstanding at 1 July 2007	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding	Exercise period of share options
							at 31 March 2008	
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

Name of Directors	Date of grant	Exercise Price HK\$	Outstanding at 1 July 2007	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at	
							31 March 2008	Exercise period of share options
Lau Hin Kun	18/8/04	0.427 (adjusted)	1,600,000	-	-	-	1,600,000	19/8/2004 – 17/10/2012
	23/11/06	0.62	350,000	-	-	-	350,000	23/11/2006 – 17/10/2012
	23/11/06	0.62	350,000	-	-	-	350,000	23/5/2007 – 17/10/2012
	23/11/06	0.62	700,000	-	-	-	700,000	23/11/2007 – 17/10/2012
Tian He Nian	23/11/06	0.62	260,000	-	-	-	260,000	23/11/2006 – 17/10/2012
	23/11/06	0.62	260,000	-	-	-	260,000	23/5/2007 – 17/10/2012
	23/11/06	0.62	530,000	-	-	-	530,000	23/11/2007 – 17/10/2012
Zhao Zhi Ming	23/11/06	0.62	260,000	-	-	-	260,000	23/11/2006 – 17/10/2012
	23/11/06	0.62	260,000	-	-	-	260,000	23/5/2007 – 17/10/2012
	23/11/06	0.62	530,000	-	-	-	530,000	23/11/2007 – 17/10/2012
To Yan Ming, Edmond	23/11/06	0.62	260,000	-	-	-	260,000	23/11/2006 – 17/10/2012
	23/11/06	0.62	260,000	-	-	-	260,000	23/5/2007 – 17/10/2012
	23/11/06	0.62	530,000	-	-	-	530,000	23/11/2007 – 17/10/2012
Total			24,870,000	-	-	-	24,870,000	



### (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.

<b>Name of Directors</b>	<b>Capacity</b>	<b>Number of Warrants and number of Shares entitled pursuant to the full exercise of the Warrants held as at 31 March 2008</b>
Cheung Kwai Lan	Beneficial owner	276,000
Lau Hin Kun	Beneficial owner	90,000

Save as disclosed above, as at 31 March 2008, 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 period 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 period.

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

As at 31 March 2008, according to the register kept by the Company pursuant to section 336 of SFO, and so far as is known to the Directors and 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	Beneficial owner	361,695,000 (Note 1)	–	38.02%
Oppenheimer International Small Company Fund	Investment manager	165,000,000	–	17.34%
Haven Associates Limited	Interest in controlled corporation	69,900,000 (Note 2)	–	7.35%
Shaw Kyle Arnold Junior	Interest in controlled corporation	69,900,000 (Note 2)	–	7.35%

*Notes:*

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

**(2) Long positions in underlying Shares**

<b>Name of Shareholders</b>	<b>Capacity</b>	<b>Number of Warrants and number of Share entitled pursuant to the full exercise of the Warrants held as at 31 March 2008</b>
Best Frontier	Beneficial owner ( <i>Note 1</i> )	48,226,000
Oppenheimer International Small Company Fund	Investment manager	22,000,000
Haven Associates Limited	Interest in controlled corporation ( <i>Note 2</i> )	9,320,000
Shaw Kyle Arnold Junior	Interest in controlled corporation ( <i>Note 2</i> )	9,320,000

*Notes:*

1. The 48,226,000 Warrants are owned by Best Frontier which is owned as to 99.89% and 0.11% by Madam Cheung Kwai Lan and Mr. Chan Tung Mei who are spouse to each other.
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, is the controlling shareholder of Shaw, Kwei & Partners (Asia) Ltd. and SKP Capital Limited.

Save as disclosed above, as at 31 March 2008, the Directors or chief executives of the Company were not aware of any person (other than a Director or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, was, directly or indirectly, interest in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group.

## **COMPETING INTERESTS**

None of the Directors or the management shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules) had any business that competed or might compete with the business of the Group.

## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the code of conduct for securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the “Code”). Having made specific enquiry of all Directors, the Company was not aware of any non-compliance with the required standard as set out in the Code.

## **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.

## **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 four Independent Non-Executive Directors, namely Mr. Tian He Nian, Mr. Zhao Zhi Ming, Mr. Zhang Xiu Fu and Mr. To Yan Ming, Edmond. Mr. To Yan Ming, Edmond is the chairman of the audit committee. The Group’s unaudited results for the three months and nine months ended 31 March 2008 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.

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

During the nine months ended 31 March 2008, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

By order of the Board,  
**CHAN Ting**  
*Director*

Hong Kong, 15 May 2008

*As at the date of this report, the Executive Directors are Madam Cheung Kwai Lan, Mr. Chan Tung Mei, Mr. Lau Hin Kun and Mr. Chan Ting; and the Independent Non-Executive Directors are Mr. Tian He Nian, Mr. Zhao Zhi Ming, Mr. Zhang Xiu Fu and Mr. To Yan Ming, Edmond.*