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 2008

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

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

The 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 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.

China Vanguard Group Ltd.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Madam CHEUNG Kwai Lan *(Chairman)*
Mr. CHAN Tung Mei
Mr. CHAN Ting
Ms. CHAN Siu Sarah *(appointed on 28 May 2008)*
Mr. LAU Hin Kun

Independent Non-executive Directors

Mr. TIAN He Nian
Mr. ZHANG Xiu Fu *(appointed on 25 January 2008)*
Mr. ZHAO Zhi Ming
Mr. TO Yan Ming Edmond

AUDIT COMMITTEE

Mr. TO Yan Ming Edmond *(Chairman)*
Mr. TIAN He Nian
Mr. ZHANG Xiu Fu *(appointed on 25 January 2008)*
Mr. ZHAO Zhi Ming

REMUNERATION COMMITTEE

Mr. CHAN Ting *(Chairman)*
Mr. ZHANG Xiu Fu *(appointed on 25 January 2008)*
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 ACA*

QUALIFIED ACCOUNTANT

Mr. KWAN Yiu Ming Patrick *FCCA FCPA ACA*

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

Allen and Overy
9th Floor
Three Exchange Square
Central
Hong Kong

REGISTERED OFFICE

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

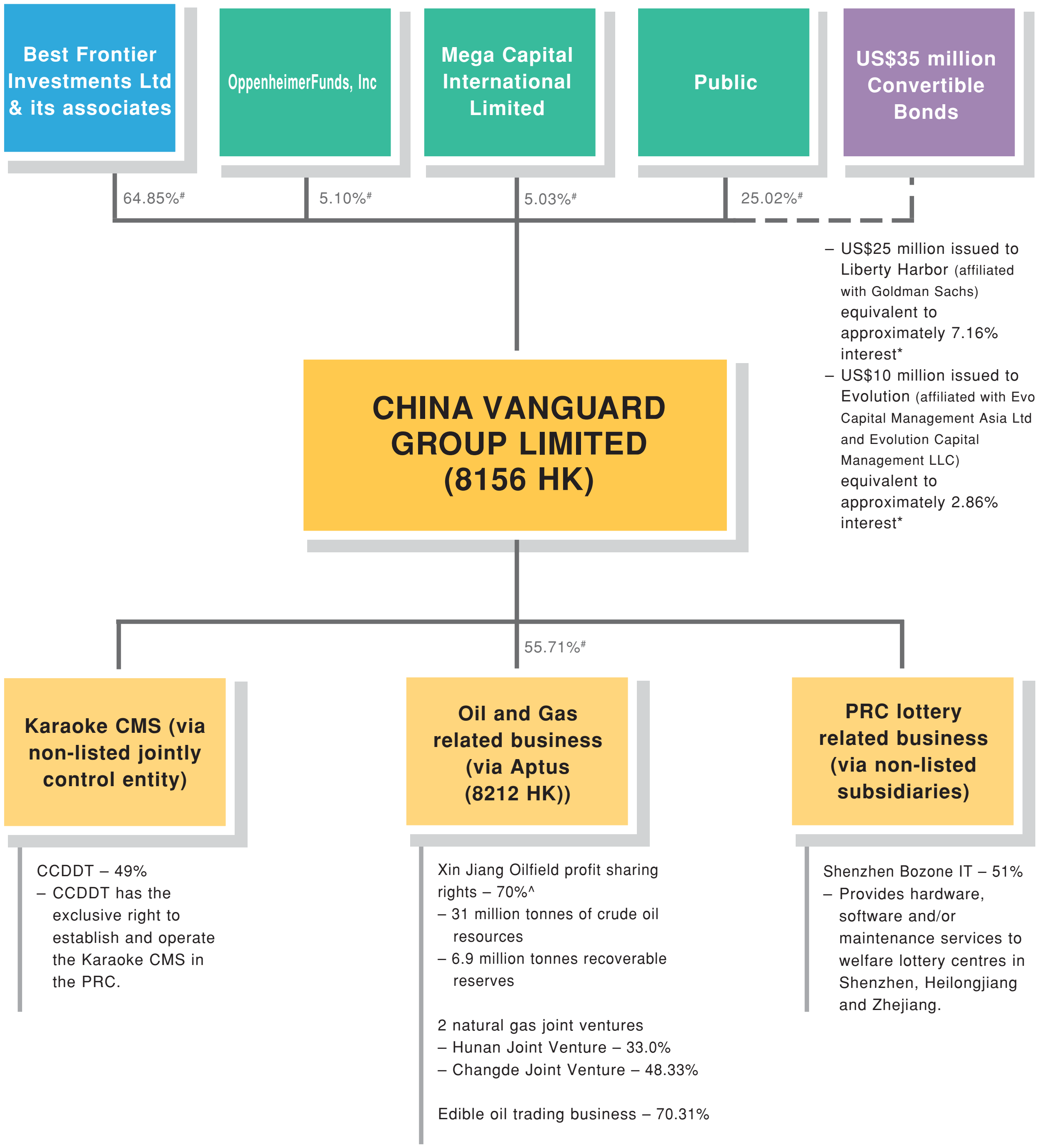
HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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



Shareholding as at 25 September 2008

* If converted on 25 September 2008 for China Vanguard's shares, and at the conversion price of HK$0.80 per share as per the convertible bonds together with accretion of 7% per annum, compounded semi-annually

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

Highlights of the Year

14 Nov 07

Despatch of First Quarterly Report of 2007/08 which recorded an unaudited HK$41,083,000 in consolidated revenue from continuing operations representing an increase of approximately 87% as compared to the corresponding period in 2006/07.

25 Jan 08

Appointment of Mr. Zhang Xiu Fu as Independent Non-executive Director, Audit Committee Member and Remuneration Committee Member.

Feb 08

Opening of the Beijing branch office of Shenzhen Bozone IT Co., Ltd., a step closer to our aim to expand geographically within the PRC.

Jul Nov Dec Jan Feb

17 Jan 08

Signed conditional Share Purchase Agreement with Vendors to purchase the entire issued share capital of Grand Promise International Limited ("Grand Promise") at a consideration of US$200,000,000. Grand Promise, via its subsidiary, holds a 49% interest in China Culture Development Digital Technology Co., Ltd. ("CCDDT") (北京中文發數字科技有限公司), a sino-foreign joint venture that has the exclusive right to establish and operate a nationwide karaoke content management service system ("Karaoke CMS") in the PRC.

北京中文發數字科技有限公司

11 Feb 08

Despatch of Interim Report of 2007/08 which recorded an unaudited HK$75,136,000 in consolidated revenue from continuing operations representing an increase of approximately 118% as compared to the corresponding period in 2006/07.

Highlights of the Year

14 Mar 08

Despatch of circular regarding the acquisition of Grand Promise giving details of the Share Purchase Agreement, on the karaoke industry in the PRC, on the Karaoke CMS, and on information about the Grand Promise to China Vanguard's shareholders for their consideration.

3 Apr 08

EGM held to vote on the acquisition of Grand Promise. All resolutions as set out in the EGM notice were duly passed by way of a poll at the EGM.

15 May 08

Despatch of Third Quarterly Report of 2007/08 which recorded an unaudited HK$114,893,000 in consolidated revenue from continuing operations representing an increase of approximately 96% as compared to the corresponding period in 2006/07.

Mar Apr May Jun

11 Apr 08

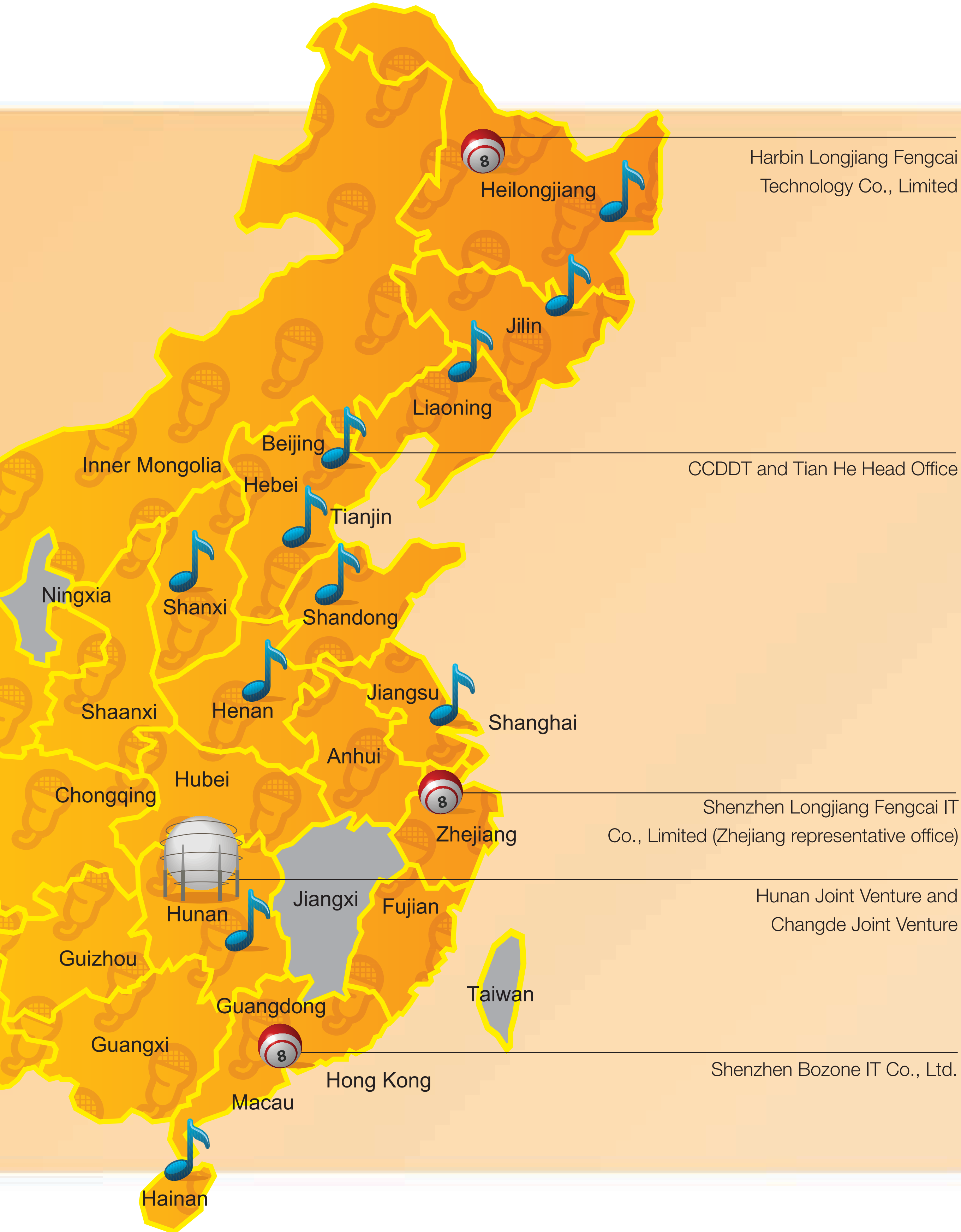
Completion of the acquisition of Grand Promise. This marks the Group's entry into technology platforms for the intellectual property protection industry in the PRC. As a condition of the acquisition, the Company also assumed Grand Promise's outstanding US$35,000,000 convertible bonds which were issued US$25,000,000 to Liberty Harbor Master Fund I, L.P and US$10,000,000 to Evolution Master Fund Ltd. Spc. Segregated Portfolio M.

28 May 08

Appointment of Ms. Chan Siu Sarah as Executive Director to the Board to further strengthen its composition. Ms. Chan is also the General Counsel of the Company and its subsidiaries.

Geographic Coverage

Geographic Coverage



Chairman's Statement

We believe that the US$200,000,000 acquisition of Grand Promise significantly enhances the prospects of the Group.

Dear Shareholders,

On behalf of the board of directors of China Vanguard Group Limited (the "Company" or "China Vanguard"), I herein present the results of the Company and its subsidiaries (the "Group") for the year ended 30 June 2008.

Chairman's Statement

OVERVIEW

In April 2008, the Group completed the US$200 million acquisition of Grand Promise International Limited ("Grand Promise"). This gives the Company an effective 49% interest in China Culture Development Digital Technology Co., Ltd. ("CCDDT") (北京中文發數字科技有限公司), a PRC sino-foreign joint venture company. CCDDT is mainly engaged in research and development of software and information technology products; system integration; technology consultancy and services; and other services. It was granted the nationwide exclusive right, for the life of the joint venture (i.e. 30 years), by the Ministry of Culture Market Development Centre ("MOC Market Development Centre") to establish and operate the nationwide karaoke content management service system ("Karaoke CMS")(卡拉OK內容管理服務系統). Via the Karaoke CMS, CCDDT will carry out copyright transactions of karaoke programmes between Intellectual Property Owners ("IP Owners") and karaoke venues and also provide technical support and operational services for value-added services ("VAS") at karaoke venues.

The China Audio–Video Copyright Association ("CAVCA") (中國音像著作權集體管理協會) is the body approved by the National Copyright Bureau (國家版權局) to collectively manage copyright of audio and video programmes for IP Owners. The copyright of karaoke programmes collectively managed by CAVCA includes most of the Chinese language music and a large portion of foreign language music (including copyrights of songs from four major international record labels and more than 80 other well-known record labels in the PRC, Hong Kong and Taiwan). CAVCA chose to work with Beijing Tian He Culture Co. Ltd. ("Tian He"), a jointly controlled entity of CCDDT (together "CCDDT Group"), on an exclusive basis for 10 years to collect copyright fees from karaoke venues via utilising CCDDT Group's copyright collection services and the Karaoke CMS during this period.

As at the date of this report, CCDDT has commenced implementing the Karaoke CMS in 28 provinces and has surpassed one of the stated targets in the circular dated 14 March 2008 regarding the acquisition of Grand Promise, that is to be implementing the Karaoke CMS in 25 provinces by the end of calendar year 2008.

The Company is happy to announce Tian He has begun formal collection of copyright fees from karaoke venues in Yunnan, Henan and Sichuan on behalf of CAVCA and IP Owners starting from July 2008. Copyright fees are being collected retrospectively back to January 2008, and as at the date of this report, Tian He has arranged to collect copyright fees from these karaoke venues amounting to over HK$7.8 million.

Chairman's Statement

Further to this, CCDDT is progressing in its VAS and has begun to conduct off-site testing with the ultimate purposes of providing advertising related VAS in karaoke venues.

The acquisition marks the Group's entry into technology platforms for the entertainment sector and intellectual property protection related industry in the PRC. We believe that this move has significantly enhanced the prospects of the Group.

Over the past financial year, we have continued to put in efforts to expanding our existing operations to grow revenue and control costs. In addition to the above-mentioned, we have also put in new management structures and procedures through the introduction of a senior level "Operating Committee" to overlook 3 major operating units, namely, (1) lottery-related operations in the PRC by our flagship subsidiary Shenzhen Bozone IT Co., Ltd.; (2) oil and gas related operations via Aptus Holdings Limited ("Aptus"), an indirect non-wholly owned subsidiary listed on GEM; and (3) our newest addition to the mix, technology platforms for IP protection and VAS in the entertainment sector in the PRC via Grand Promise.

Chairman's Statement

A MAJOR NEW PIECE ADDED – TECHNOLOGY PLATFORM FOR IP PROTECTION AND VAS IN THE ENTERTAINMENT SECTOR

The Company has always been actively seeking new business expansion opportunities with a view to increase the value of the Group. On 17 January 2008, the Company announced the signing of an US$200 million Share Purchase Agreement to acquire a 100% stake in Grand Promise. On 11 April 2008, the Group announced the completion of the acquisition. This gave the Company an effective 49% interest in CCDDT, a sino-foreign joint venture company established in the PRC. CCDDT will be accounted for as a jointly controlled entity and will be proportionately consolidated into the Group's financial statements.

As a condition of the acquisition, the Company assumed Grand Promise's outstanding US$35 million convertible bonds which were issued US$25 million to Liberty Harbor Master Fund I, L.P ("Liberty Harbor") and US$10 million 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 bonds have now become US$25 million and US$10 million of China Vanguard convertible bonds which are exchangeable into the Company's shares at a price of HK$0.80 per share.

Chairman's Statement

Through this acquisition, the Group is now participating in the intellectual property protection industry in the PRC. CCDDT is engaged in research and development of software and information technology products; system integration; technology consultancy and services; and other services in the PRC. It was granted the nationwide exclusive right, for the life of the joint venture (i.e. 30 years), by the MOC Market Development Centre to establish and operate the Karaoke CMS. Via the Karaoke CMS, CCDDT Group will carry out copyright transactions of karaoke programmes between IP Owners and karaoke venues and also provide technical support and operational services for VAS at karaoke venues.

Karaoke programmes (i.e. audio visual karaoke programmes) will only be included in the programme database of the Karaoke CMS when they have received proper approvals from various regulatory bodies to ensure both the contents and qualities meet industry standards.

According to market research and statistics, as of the end of 2005, there were over 52,000 dedicated karaoke venues with approximately 2.3 million rooms. Assuming that approximately 50 karaoke programmes are played in each room each day, over 115 million karaoke programmes are played each day and circa 42 billion karaoke programmes are played per year across the PRC. Before the Karaoke CMS was established, IP Owners did not have a channel or a systematic way to collect copyright fees from karaoke venues as there are many of them in the market. Meanwhile, the karaoke operators did not have a simple way to get authorisations from IP Owners and pay copyright fees. Now, IP Owners and karaoke operators can both utilise the Karaoke CMS to facilitate copyright transactions settlement.

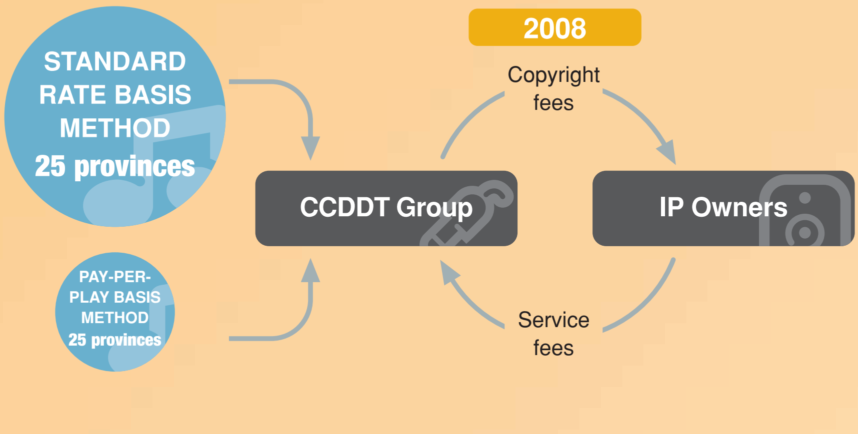
Eventually, all of the PRC's dedicated karaoke venues will be installed with a set-top box to connect them to the Karaoke CMS. These set-top boxes collect operating data from karaoke venues and also act to transmit data to and from the Karaoke CMS data centre and the karaoke venues.

CCDDT owns 50% of Tian He, the party responsible for coordinating between the IP Owners and karaoke venues for the administration and settlement of copyright transactions. Its services include: interface with IP Owners and karaoke venues, carry out copyright transaction settlement services between IP Owners and karaoke venues based on data collected on the number of karaoke programmes played and settle copyright fees collected to IP Owners and develop VAS. Tian He will setup and manage provincial subsidiaries in each province to liaise with karaoke venues and perform the daily operation of the copyright transaction settlement services. As at the date of this report, Tian He has already setup provincial subsidiaries in 13 provinces and is in the progress of establishing the remaining provincial subsidiaries.

CAVCA has announced its 2008 standard tariffs for karaoke programme copyright fees. The announced tariffs range from RMB8.00 per room per day in Guizhou to RMB11.10 per room per day in Shanghai. An important point to note is that karaoke venues in a province, whether connected or not connected to the Karaoke CMS, will all be paying copyright fees to CAVCA and the IP Owners. For example, a karaoke venue in Shanghai without the Karaoke CMS installed would be charged on standard rate basis ("Standard Rate Basis") per day at RMB11.10 multiplied by the number of rooms in the venue (during the rollout period, discounts could be negotiated as an incentive to get karaoke venues to connect to the Karaoke CMS). Meanwhile, a karaoke venue with the Karaoke CMS installed would be charged based on its actual operating data on a pay-per-play basis ("Pay-Per-Play Basis"). Each room will be charged a minimum of RMB4.00 per day (this includes 25 songs, if 25 songs are not played, RMB4.00 will be charged) plus an RMB0.12 charge for each extra song over 25 songs with the total charges capped at the standard tariffs in that province, in the case of Shanghai, as mentioned previously, it is RMB11.10 per room per day.

Tian He will invoice karaoke venues based either on the Standard Rate Basis or Pay-Per-Play Basis and then, on behalf of IP Owners, collect these copyright fees and settle the copyright fees collected to the IP Owners respectively. CCDDT and Tian He will be paid a service fee by the IP Owners.

Target Copyright Fees Collection Schedule



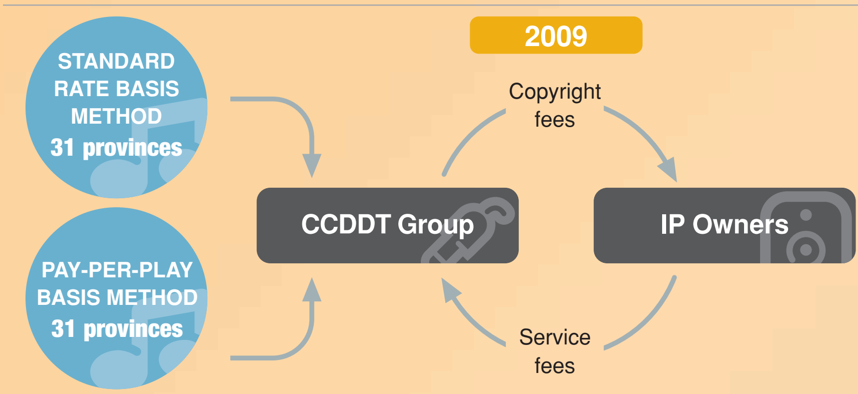
TARGETS

Rollout : 25 Provinces

Comments : Target to be collecting fees from dedicated karaokes venues in 25 provinces by the end of calendar year 2008.

Unconnected karaokes venues will be charged fees based on the Standard Rate Basis Method.

Initially, the form of collection will rely predominately on the Standard Rate Basis Method as physical installation begins roll out in these 25 provinces.

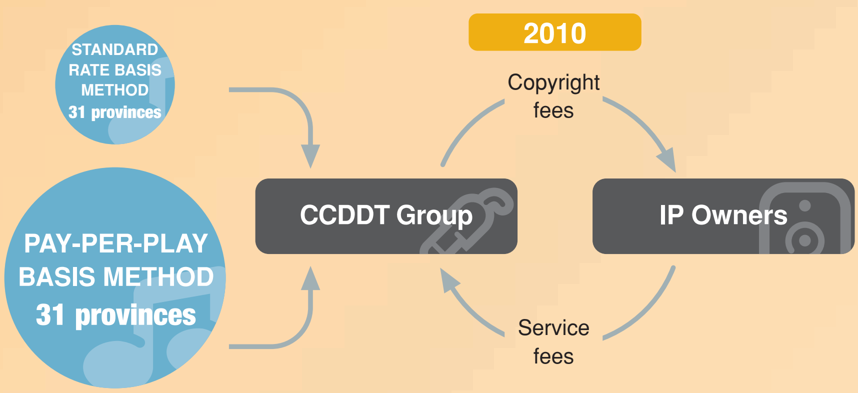


TARGETS

Rollout : 31 Provinces

Comments : By the end of calendar year 2009, Tian He targets to be collecting fees from dedicated karaokes venues in 31 provinces in the PRC.

There will be a declining reliance on the Standard Rate Basis Method for the charging of copyright fees as more dedicated karaokes venues are connected to the Karaoke CMS.



TARGETS

Rollout : 31 Provinces

Comments : Pay-Per-Play Basis Method will dominate fees calculation as a majority of dedicated karaokes venues will be connected to the Karaoke CMS.

Chairman's Statement

As at the date of this report, CCDDT has installed set-top boxes in over 900 dedicated karaoke venues nationwide and it is targeted to install set-top boxes in all dedicated karaoke venues by the end of 2010.

PRC LOTTERY-RELATED OPERATIONS

With intentions to better stream-line operation flows and to better serve our clients, Shenzhen Bozone IT Co., Ltd. ("Bozone") and its subsidiaries ("Bozone Group") underwent some key reorganization in the year. A new Chief Operating Officer was hired to assist the Chief Executive Officer of Greater China in overseeing the operations of Bozone Group and to assist in project development. Additional software engineers and quality control technicians were also hired to broaden our existing team's knowledge and skill sets to further develop new products and to ensure the quality of the software and equipment that we provide.

In addition to hiring additional staff to promote our expansion, a new branch office was established in Beijing in February of this year.

Bozone Group is currently providing equipment and/or services to the Welfare Lottery Centres located in Shenzhen, Heilongjiang and Zhejiang. Equipment and services include: software development for large scale computer lottery sales systems, integration of network systems, network security solutions, lottery operation solutions and services and research and development into and supply of computer lottery terminals.

Bozone Group has emerged to become one of the most competitive professional providers of technology, products and operation services in the Welfare Lottery sector in the PRC and has assisted its customers to achieve remarkable results.

Full twelve-month revenue contribution to the Group was approximately HK$35.7 million as compared from July 2006 to June 2007 of approximately HK$28.3 million, a revenue increase of approximately 26%.

OIL AND GAS-RELATED OPERATIONS

With regards Aptus, natural gas related operations have achieved a significant increase in revenues as compared to last fiscal year while the edible oil trading business resulted in a slight decrease in turnover.

Chairman's Statement

Natural Gas-related Operations

Aptus has stakes in two natural gas related joint ventures in the province of Hunan, the PRC. Aptus has 48.33% and 33.0% shareholdings respectively in 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.

The Hunan Joint Venture has completed the construction of its main pipeline (about 188 km in total) branching out to reach 7 city-level gas distribution stations in the province of Hunan as compared to only 5 city-level gas distribution stations for the previous fiscal year. The 7 cities are Changde (常德), Yiyang (益陽), Deshan (德山), Wangcheng (望城), Hanshou (漢壽), Tongguan (銅官) and Ningxiang (寧鄉). In the last twelve months the Hunan Joint Venture transported about 47.1 million cubic meters of natural gas to the 7 city-level gas distribution stations, an increase of approximately 260% as compared to 13.1 million cubic meters in the previous twelve months[1].

The Changde Joint Venture has added 84 km to its city-level pipeline network increasing it to 678 km from 594 km previously. This pipeline network now connects to a total of circa 53,000 users (as of 30 June 2007, approximately about 37,600 users were connected) this include approximately 144 commercial users, 95 public welfare establishments, 8 industrial users and over 52,000 residential users to its network with an output of about 41.5 million cubic meters of natural gas this financial year, an increase of approximately 173% as compared to 15.2 million cubic meter in the previous twelve months[1]. During the year, management implemented a sales target-linked remuneration system for its sales staff as motivation to increase overall connectivity and as reflected from the numbers below, this remuneration reward system is giving us highly satisfactory results.

Full twelve-month revenue contribution to the Group was approximately HK$65.8 million and for the period from February to June 2007 approximately HK$14.7 million as the joint ventures were just acquired in February 2007.

In addition to increasing sales and better cost controls, staff safety is also a top priority. Both Hunan Joint Venture and Changde Joint Venture have received HSE certification from the Health and Safety Executive Association and have managed to maintain zero injuries, zero accidents and zero contaminations for the past two years. Management will continue to do all that is necessary to ensure the three zeros will be maintained.

[1] For comparison purposes, a full twelve-month figure is used. The Hunan Joint Venture and Changde Joint Venture were acquired in February 2007. Thus, only natural gas turnover for the period from February to June 2007 was recorded in last fiscal year.

Xin Jiang Oilfield

Initial drilling at our Xin Jiang Oilfield project in Feng Cheng has continued to yield very positive results with crude flowing successfully. However, progress in its development on our behalf has been slow this financial year. Many of the delays have stemmed from business restructuring of the China National Petroleum Corporation Xin Jiang Petroleum Management Bureau (中國石油集團新疆石油管理局) and PetroChina Company Limited Xin Jiang Oilfield Branch Company (中國石油天然氣股份有限公司新疆油田分公司) who were, together with China Huayou Group Corporation, responsible for the development, management and operation of the oilfield. Their restructuring, which disrupted progress on our behalf, is now nearing completion. This year we will continue to work hard to bring commercial production of the Xin Jiang Oilfield to the shareholders of the Company.

FUTURE OUTLOOK AND PROSPECTS

The Group has gone through significant developments to get to where we are today. In the PRC we are participating in (1) lottery-related sector, (2) oil and gas-related sector, and (3) technology platforms for IP protection and VAS in the entertainment sector.

It is our objective to become a major vertically integrated player in the PRC lottery-related sector. With the additional staffing and new branch office for the Bozone Group, we are closer to our aim of becoming a one-stop solution provider to Lottery Centres across the PRC. Bozone is currently ranked as the third largest lottery solution provider to the Welfare Lottery in the PRC. We will continue building on our existing products and further develop in the area of POS machines. We will also continue to search for opportunities to expand geographically within the PRC and internationally.

At Aptus, it is our objective to become a large vertically integrated player in the oil and gas-related industry. We will continue to scale up the production at the two natural gas joint ventures in the Hunan province. The penetration strategy for Changde Joint Venture is to sign up industrial and commercial users in the area as they are the high consumption users by nature. Some of the targets for this year are to connect an additional (1) 5,000 residential users, (2) 2-3 large commercial/industrial users, and (3) 3-5 additional welfare establishments. In order to support the above-mentioned expansion, additional pipelines connecting to target welfare establishments, residential, and commercial/industrial users will be added to the existing network.

In addition to the two natural gas joint ventures, the Group will continue to explore more opportunities in the natural gas-related business in the PRC as natural gas is a more environmental friendly energy source. Industrial users have been able to provide better quality products while reducing the impact to the environment thus creating a win-win situation.

As for the Karaoke CMS, it is the Group's objective to become the leader in culture and intellectual property related industries in the PRC. The Karaoke CMS is targeted to be operational and collecting fees on behalf of IP Owners in 25 provinces and direct jurisdiction cities by the end of calendar year 2008. By the end of calendar year 2009, the Karaoke CMS is targeted to be operational and providing services for copyright transactions in all the provinces in the PRC. Meanwhile, CCDDT will simultaneously work to develop and rollout other VAS of the platform.

Chairman's Statement

The Company believes the CCDDT Group will enhance the future growth of the Group's business activities and enable it to enhance 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.

APPRECIATION

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

Madam Cheung Kwai Lan
Chairman

Hong Kong, 25 September 2008

Management Discussion and Analysis

FINANCIAL REVIEW

Turnover

The Group recorded a turnover of approximately HK$144.09 million for the year ended 30 June 2008 ("Year 2008"), an increase of approximately 63% as compared to approximately HK$88.25 million for the year ended 30 June 2007 ("Year 2007"). In the year under review, turnover from both of our natural gas-related operations improved significantly. Meanwhile, turnover from our lottery-related operations has exhibited fair growth while turnover of our edible oil trading business contracted slightly.

As indicated in the Chairman's Statement, with regards to our natural gas-related operations, the Changde Joint Venture benefited from an increase in end users within its jurisdiction whilst the Hunan Joint Venture benefited from an increase in distribution stations. As a result, revenues from these operations increased by approximately 3.5 times from approximately HK$14.7 million in Year 2007 to approximately HK$65.8 million in Year 2008.

The turnover from our lottery-related operations increased by approximately 26% from approximately HK$28.3 million in Year 2007 to approximately HK$35.7 million in Year 2008, this was mainly attributed to higher contributions from our lottery-related operations in Zhejiang province, the PRC.

Management Discussion and Analysis

The turnover from our edible oil trading business decreased by approximately 8% from approximately HK$42.9 million in Year 2007 to approximately HK$39.6 million in Year 2008, due to the continuous increase in the price of consumer goods thus reducing margins and demand.

Gross Profit

The details of gross profit and gross profit ratio of the Group for continuing operations are as follows:

	2008		2007	
	Gross Profit HK$'000	**Gross Profit Ratio %**	Gross Profit HK$'000	Gross Profit Ratio %
Karaoke CMS	**197**	**87.2**	–	–
Natural gas-related	**18,133**	**27.6**	2,843	19.3
Lottery-related	**30,314**	**84.9**	21,111	74.6
Trading of edible oil	**253**	**0.6**	672	1.6
Others	**821**	**29.4**	210	9.1
Overall	**49,718**	**34.5**	24,836	28.1

The Group's overall gross profit ratio increased from 28.1% in Year 2007 to 34.5% in Year 2008. On the lottery-related side, the gross profit ratio improved due to a higher ratio of system maintenance revenue to POS machine sales. System maintenance gross profit margins are higher than those achieved from sales of POS machines. Further, a greater contribution was made by the high margin natural gas-related operations which were acquired in February 2007. The natural gas joint ventures (Hunan Joint Venture and Changde Joint Venture/Natural Gas Joint Ventures) accounted for 45.7% of the Group's revenue in Year 2008 against just 16.7% last year.

The Group's share of turnover from the Natural Gas Joint Ventures for Year 2008 included installation income for gas connection of approximately HK$21.2 million against approximately HK$4.3 million in Year 2007. Gross profit margin of installation income is very high. As such, the significant rise in installation income has contributed to the overall widening of the gross profit margins of the Group's natural gas-related operations. Further, costs of the Hunan Joint Venture are predominantly fixed in nature (mainly depreciation) and are thus inelastic in relation to the volume of gas transported along its pipeline. Thus the increase in turnover of the Hunan Joint Venture in Year 2008 did not see a corresponding increase in cost of sales thereby also contributing to the widening of overall gross profit margins.

With regards to the edible oil trading business, as mentioned previously, the prices of consumer goods in general rose significantly in Year 2008. In reaction to tougher market conditions, the low-price strategy adopted by the Group's edible oil trading business resulted in lower gross profit margins here in Year 2008.

Operating Costs (Continued operations)

The Group's operating costs, comprising selling and distribution costs and administrative expenses, decreased by approximately HK$14.7 million from approximately HK$139.2 million in Year 2007 to approximately HK$124.5 million this year. The decrease was mainly attributable to the net effect of (i) less share option expenses charged against the Group's profit and loss account from approximately HK$83.3 million in Year 2007 to approximately HK$8.5 million in Year 2008; (ii) an increase in legal and professional fees from approximately HK$15.4 million (mainly for the issue of convertible bonds of Aptus) in Year 2007 to approximately HK$30.9 million in Year 2008 (mainly for the acquisition of Grand Promise); (iii) an increase in depreciation expenses from approximately HK$7.9 million in Year 2007 to approximately HK$18.3 million in Year 2008 (excluding depreciation charged to cost of sales) (the increase in depreciation was mainly attributable to the city-level gas operation operated by Changde Joint Venture as an additional 84km of pipeline network was built in the current year; and full year depreciation charged for this year for some fixed assets acquired during last fiscal year whereas only partial year was charged); (iv) an increase in salaries and allowance from approximately HK$18.6 million in Year 2007 to approximately HK$25.9 million in Year 2008 due to increase in more staff and increase in pay scale; (v) an increase in donation from none in Year 2007 to approximately HK$2.2 million in Year 2008; (vi) an increase in loss arising from settlement of financial liabilities by issuing of shares from none in Year 2007 to approximately HK$2.8 million in Year 2008; (vii) an increase in loss arising on changes of fair values of derivative financial instruments (convertible bonds of China Vanguard) from none in Year 2007 to approximately HK$13.3 million in Year 2008; (viii) an increase in allowance for doubtful receivable from none in Year 2007 to approximately HK$5.8 million in Year 2008; and (ix) overall increase in operation costs.

Finance Costs

The increase in finance costs over Year 2008 of about HK$17.4 million, from approximately HK$24.5 million in Year 2007 to approximately HK$41.9 million in Year 2008, was mainly attributable to the increase in imputed finance costs of the convertible bonds of the Company (convertible bonds were assumed in April 2008 through the acquisition of Grand Promise) and of the convertible bonds of Aptus, which were issued by Aptus in November 2006. The imputed finance costs of the convertible bonds increased due principally to the fact that only approximately seven months interest were charged to Aptus's financial statements in Year 2007 against a full year charge this year and the newly acquired convertible bonds of Grand Promise in April 2008.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2008, shareholders' funds amounted to approximately HK$2.3 billion (2007: HK$438.2 million). Current assets amounted to approximately HK$420.2 million (2007: HK$306.3 million), mainly comprising of cash and bank balance and trade and other receivables and prepayments. The Group had current liabilities amounting to approximately HK$234.2 million (2007: HK$64.6 million), mainly comprising of its trade and other payables, derivative financial instruments and bank and other borrowings. The Group's bank borrowings amounted to approximately HK$80.3 million (2007: HK$74.7 million) for the year ended 30 June 2008. The Group financed its operations primarily with internally generated cash flows, proceeds from the convertible bonds and banking facilities granted by banks. The net asset value per share of the Company was approximately HK$0.70 (2007: HK$0.47). The gearing ratio was 10.33% (2007: 14.73%) on the basis of current liabilities divided by shareholders' funds.

CONTINGENT LIABILITIES

As at 30 June 2008, the Group had no contingent liabilities.

CHARGES ON GROUP ASSETS

As at 30 June 2008, the Group has pledged all the issued and outstanding shares of Birdview Group Limited (a wholly-owned subsidiary of Grand Promise) together with all proceeds in favor of the holder(s) of the convertible bonds previously issued by Grand Promise. By the Deeds of Adherence, on completion of the acquisition of Grand Promise in April 2008, the convertible bonds were taken up by the Company.

As at 30 June 2008, the Group has pledged its bank deposits of approximately HK$5 million (30 June 2007: HK$5 million) to a bank to secure the general banking facilities granted to the Group.

In addition, borrowings of approximately HK$60 million (30 June 2007: HK$54.2 million) have been secured by the gas network of the Hunan Joint Venture.

As at 30 June 2008 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, was pledged in favor 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

During the year ended 30 June 2008, 16,900,000 shares were issued due to the exercise of share options under the existing share option scheme; 2,262,173,906 shares were issued on acquisition of Grand Promise as consideration; 20,023,192 shares were issued on acquisition of then shareholder's loan of Grand Promise on 11 April 2008; and 105,931 shares were issued due to the conversion of the convertible bonds issued by the Company.

Management Discussion and Analysis

CONVERTIBLE BONDS

On 11 April 2008, upon completion of acquisition of Grand Promise, the Company took up the convertible bonds with a principal amount of US$35 million (equivalent to approximately HK$273 million) previously issued by Grand Promise by the Deeds of Adherence. The principal amount of the convertible bonds shall accrete at a yield of 7% per annum, compounded semi-annually. Unless previously redeemed, converted or purchased and cancelled, the convertible bonds will be redeemed at 141.06% of their principal amount on 30 November 2012.

The fair value of the liability component, as stated in the consolidated balance sheet and note 29 to the consolidated financial statements, 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. Any differences between the face amount and the fair value of the convertible bonds will be charged to the profit and loss account. The residual amount, representing the value of the equity component, is credited to non-current liability of the Company.

On 22 November 2006 the Company's non wholly-owned subsidiary 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 the Changde Joint Venture, 33% equity interest in the Hunan Joint Venture and general working capital purposes.

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.

Management Discussion and Analysis

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

No significant exchange risk is expected as the Group's cash, borrowings, income and expenses are settled in Hong Kong dollars, RMB or US dollars. The Group's major investment and financing strategies are to invest in domestic projects in the PRC by Hong Kong dollars and US dollars borrowings. As RMB appreciation is expected to continue in the foreseeable future and the Group's operating income is substantially denominated in RMB, the Group did not perform any foreign currency hedging activities during the year. Nevertheless, the Group will from time to time review and adjust the Group's investment and financing strategies based on the RMB, US dollars and Hong Kong dollars exchange rate movement.

EMPLOYMENT AND REMUNERATION POLICIES

As at 30 June 2008, the Company and its subsidiaries employed 31 staff in Hong Kong, 2 staff in Singapore and 74 staff in the PRC; and the Group's jointly controlled entities employed 490 staff in the PRC. Staff costs excluding directors' remuneration amounted to approximately HK$17.9 million (2007: HK$14.3 million). 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.

SIGNIFICANT INVESTMENT

For the year ended 30 June 2008, the Group did not have any significant investments.

MATERIAL ACQUISITION AND DISPOSALS OF SUBSIDIARIES

During the year ended 30 June 2008, the Group completed the acquisition of the entire issued capital of Grand Promise and Best Delight Group Limited.

Directors and Senior Management

DIRECTORS

Executive Directors

Madam CHEUNG Kwai Lan, aged 70, is the Chairman, one of the founders of the Group and an Executive Director. She has served the Group for more than 8 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 ("Aptus"), an indirect non-wholly owned subsidiary listed on GEM. She is the mother of Ms. Chan Siu Sarah and Mr. Chan Ting and the spouse of Mr. Chan Tung Mei, all being Executive Directors.

Mr. CHAN Tung Mei, aged 72, is one of the founders of the Group and an Executive Director. He has served the Group for more than 8 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 12 years of experience in establishing and managing companies. He is the father of Ms. Chan Siu Sarah and Mr. Chan Ting and the spouse of Madam Cheung Kwai Lan, all being Executive Directors.

Directors and Senior Management

Mr. CHAN Ting, aged 38, is an Executive Director and the Chief Executive Officer of the Company. 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 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 fifteen years of solid working experience in establishing and managing companies in the PRC. He is also an Executive Director of Aptus. He is the son of Madam Cheung Kwai Lan and Mr. Chan Tung Mei, and the brother of Ms. Chan Siu Sarah, all being Executive Directors of the Company. He joined the Group in July 2001.

Ms. CHAN Siu Sarah, aged 43, is an Executive Director. She obtained her law degree from the London School of Economics and Political Science in 1989 and was qualified to practice law as solicitor in Hong Kong in 1992 and England and Wales in 1993. She did her solicitor's training with the international firm of Baker & McKenzie in Hong Kong and, after qualification, worked for 4 years at the international firm of Linklaters in Hong Kong specializing in projects and project finance with a particular focus on China. She then spent the next 7 years as corporate counsel with the Asia Pacific regional headquarter of Lucent Technologies in Hong Kong attending legal matters in the region. From 2004 to 2007, she was appointed the regional general counsel for the Asia Pacific region of Avon Products Inc., leading its legal, government and regulatory affair teams in the region. Ms. Chan has been an executive director of Avon Products Co., Ltd. which is listed on the JASDAQ Securities Exchange, Inc. for the period from March 2006 to December 2007. In addition to being an Executive Director, Ms. Chan is also the General Counsel of the Company and its subsidiaries, including Aptus. Ms. Chan is the daughter of Madam Cheung Kwai Lan and Mr. Chan Tung Mei, and the sister of Mr. Chan Ting, all being Executive Directors of the Company. She joined the Group in May 2008.

Mr. LAU Hin Kun, aged 49, is an Executive Director. He has served the Group for more than 7 years and is the director of certain subsidiaries of the Company. 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 68, 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. He joined the Group in November 2004 and he is also a member of audit committee of the Company.

Directors and Senior Management

Mr. ZHANG Xiu Fu, aged 74, is an Independent Non-executive Director. He devoted himself to the Chinese Revolution in August 1948 and joined in the Communist Party in March 1950. He had served as the head of the municipal police of Hangzhou city, Zhejiang province, the Chief Officer of the provincial police of Zhejiang province, a member of the Communist Party's Provincial Standing Committee in Zhejiang province and the Secretary of the Political and Legislative Affairs Committee. He had also served as the Commissar of the Chinese People's Armed Police, the Vice Minister and the Vice Head of the party organization of the Chinese Ministry of Legislation, a representative of the Nine National People's Congress, a member of the Legislation Committee of the National People's Congress and the Vice President of China Law Science Association. He is currently serving as the president of the China Legal Aid Foundation. He is also an Independent Non-executive Director and audit committee member and remuneration member of Aptus. He joined the Group in January 2008 and he is also a member of the audit committee and the remuneration committee of the Company.

Mr. ZHAO Zhi Ming, aged 66, is an Independent Non-executive Director. Mr. Zhao is the committee member of The Specialist Committee of the China Development Bank (國家開發銀行專家委員會) and the Professor of the Liaoning Technical University (遼寧工程技術大學). After graduation from the university in 1965, he worked for several government authorities of the PRC, such as Tianjin Government (天津市政府部門), China Development Bank (國家開發銀行) and National Energy Investment Company of the PRC (國家能源投資公司). 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. 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 36, 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 and Edmond To CPA Limited. He is a member of the CPA Australia and Hong Kong Institute of Certified Public Accountants. He worked for the international accounting firm Deloitte Touche Tohmatsu and has over 10 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. 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 43, is the Chief Financial Officer, the qualified accountant and the company secretary of the Group. He has served the Group for more than 7 years and is the director of certain subsidiaries 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 and an associate member of the Institute of Chartered Accountants in England and Wales. 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.

Directors and Senior Management

Mr. FUNG King Him Daniel, aged 38, is a Director of Corporate Strategy of the Group. He is also an Executive Director of Aptus and directors of various subsidiaries of the Group. Mr. Fung is responsible for business development of the Group. 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 45, 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 Aluminium Holdings Ltd. He joined the Group in April 2006.

Mr. CHAN Kin Kee, aged 38, is the Chief Technical Officer of the Group. He holds a degree from Macquarie University in Australia. He previously worked in IBM Australia as Technical Consultant, in Aeon Credit Services Co., Ltd., a company listed in the Tokyo Stock Exchange, as Manager, and in EVI Services Ltd. as IT Development Manager.

Mr. WU Ziqiang, aged 46, is the Chief Executive Officer of Greater China of the Group and the director of certain subsidiaries of the Group. He is responsible for the lottery – related operation of the Group. Mr. Wu has over 7 years experience in senior management position in the Hong Kong listed companies and over 20 years experience in information technology related industry based in Hong Kong and the PRC. Prior to joining the Group, he served as: Co-Chief Executive Officer and Executive Director of China LotSynergy Holdings Limited; as Vice President of TradeLink Electronic Commerce Limited; and as General Manager of UNI-Tech Software Engineering Co., Limited. He also held senior positions in China Shenzhen Mercantile Exchange. He has a Master Degree in Computer Communication Engineering from the National University of Defence Technology, China. He joined the Group in November 2006.

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 nine Directors, of whom five are Executive Directors and four are Independent Non-executive Directors. To further strengthen the composition of the Board, the Board has appointed one Executive Director with legal backgrounds and one Independent Non-executive Director to the Board in the year under review. 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	12/13
Mr. Chan Tung Mei	12/13
Mr. Chan Ting	12/13
Ms. Chan Siu Sarah (appointed on 28 May 2008)	*1/1
Mr. Lau Hin Kun	6/13
Independent Non-executive Directors	
Mr. Tian He Nian	4/13
Mr. Zhang Xiu Fu (appointed on 25 January 2008)	**2/4
Mr. Zhao Zhi Ming	5/13
Mr. To Yan Ming Edmond	5/13

* For the period from 28 May 2008 to 30 June 2008, only one board meeting was held by the Company and Ms. Chan Siu Sarah attended the meeting.

** For the period from 25 January 2008 to 30 June 2008, only four meetings were held by the Company and Mr. Zhang Xiu Fu attended two meetings.

The Board is entrusted with the overall responsibility for promoting the success of the Company by the direction and supervision of the Company's business and affairs and the ultimate responsibility for the day to day management of the Company which is delegated to the management. For significant matters that are specifically delegated by the Board, the management must report back to and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

The Executive Director, Madam Cheung Kwai Lan is the mother of Mr. Chan Ting and Ms. Chan Siu Sarah and the spouse of Mr. Chan Tung Mei, all of them being Executive Directors of the Company.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

NON-EXECUTIVE DIRECTORS

The Code provision A.4.1 provides that Non-executive Directors should be appointed for specific terms, subject to re-election. The Company has deviated from this provision in that all Independent Non-executive Directors are not appointed for specific terms. They are, however, subject to retirement and re-election every three years. The reason for the deviation is that the Company does not believe that arbitrary limits on term of non-executive directorship 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 four members comprising Mr. Chan Ting, Mr. Zhang Xiu Fu, 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 11 to the financial statements. During the year ended 30 June 2008, one meeting was held with the attendance of all committee member.

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.

AUDITORS' REMUNERATION

During the year, remuneration paid/payable to auditors for audit services and non-audit services are approximately HK$1,468,000 (2007: HK$968,000) and HK$680,000 (2007: HK$365,000) respectively. Non-audit services related to the issue of Accountancy Report included in a circular issued by the Company.

Corporate Governance Report

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, semiannual 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 four Independent Non-executive Directors of the Company, namely, Mr. Tian He Nian, Mr. Zhang Xiu Fu, 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. Zhang Xiu Fu (appointed on 25 January 2008)	*2/2
Mr. Zhao Zhi Ming	4/4
Mr. To Yan Ming Edmond *(Chairman)*	4/4

* For the period from 25 January 2008 to 30 June 2008, only two audit committee meetings were held by the Company and Mr. Zhang Xiu Fu attended all these two meetings.

The audit committee reviewed the Group's audit results for the year ended 30 June 2008 with management and the Company's external auditors and recommended its adoption by the Board.

INTERNAL CONTROL

The Board has conducted a review of its system of internal control policy periodically to ensure the effective and adequate internal control system. The Board convened meeting periodically to discuss financial, operational and risk management control.

INVESTOR RELATIONS

The Board puts great emphasis on investor relationship in particular fair disclosure and comprehensive report of the Company's performance and activities.

Shareholders are encouraged to attend the annual general meeting ("AGM") of the Company and the Directors always make efforts to fully address any questions raised by the Shareholders at the AGM.

The Company provides comprehensive information about the Group in its website (www.cvg.com.hk) to investors and potential investors. Hard copies of the annual reports, half-yearly report and quarterly reports are all sent to Shareholders, as well, they are available at the Company's website.

Directors' Report

The Directors present their annual report and the audited consolidated financial statements for the year ended 30 June 2008.

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 42 to the consolidated financial statements.

An analysis of the Group's performance for the year by business is set out in note 7 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 46.

The Directors do not recommend the payment of any dividend for the year ended 30 June 2008.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 17 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 30 and 31 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 49.

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 pages 129 and 130 of the annual 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
Ms. Chan Siu Sarah (appointed on 28 May 2008)
Mr. Lau Hin Kun

Directors' Report

Independent Non-executive Directors

Mr. Tian He Nian
Mr. Zhang Xiu Fu (appointed on 25 January 2008)
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 Ting, Mr. Zhao Zhi Ming and Mr. To Yan Ming Edmond retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting ("AGM").

In accordance with Article 99 of the Articles of Association, Ms. Chan Siu Sarah and Mr. Zhang Xiu Fu retire and, being eligible, offer themselves for re-election at the forthcoming AGM.

DIRECTORS' SERVICE CONTRACTS

All of the Executive Directors of the Company except Ms. Chan Siu Sarah and 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.

Ms. Chan Siu Sarah and Mr. Lau Hin Kun have not entered into any service contracts with the Company and they are not appointed for a specific term since they are subject to retirement by rotation and re-election in accordance with the Articles 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 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 2008 and the Company considers the Independent Non-executive Directors to be independent.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

During the year, the Company entered into a sale and purchase agreement with the vendors to acquire the entire issued share capital of Grand Promise at a consideration of US$200 million. One of the vendors was Best Frontier. Best Frontier is owned as to 99.89% and 0.11% by Madam Cheung Kwai Lan and Mr. Chan Tung Mei, both being Executive Directors of the Company. For more details of the transaction, please refer to the "Connected Transaction" section of this report.

Save for the above, 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 2008, 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				Approximate percentage of shareholding
		Interest in controlled corporation	Beneficial owner	Family interest	Total interest	
Cheung Kwai Lan	Company	2,191,457,322 (Note 1)	2,070,000 (Note 2)	–	2,193,527,322	67.80%
Chan Tung Mei	Company	–	–	2,193,527,322 (Notes 1 & 2)	2,193,527,322	67.80%
Lau Hin Kun	Company	–	1,410,000	–	1,410,000	0.04%
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	55.71%
Chan Tung Mei	Aptus Holdings Limited	–	–	971,746,428 (Note 4)	971,746,428	55.71%

Notes:

1. The 2,191,457,322 shares 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. 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 2,193,527,322 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 2008, Best Frontier is interested in approximately 67.74% 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 31 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.

For the year ended 30 June 2008, no share option had been granted or agreed to be granted under the Share Option Scheme.

Details of share options held by the Directors are as follows:

Name of Director	Date of grant	Exercise price HK$	Outstanding at 1 July 2007	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 30 June 2008	Exercise period of share options
Cheung Kwai Lan	23/11/2006	0.62	1,560,000	–	–	–	1,560,000	23/11/2006 – 17/10/2012
	23/11/2006	0.62	1,560,000	–	–	–	1,560,000	23/5/2007 – 17/10/2012
	23/11/2006	0.62	3,120,000	–	–	–	3,120,000	23/11/2007 – 17/10/2012
Chan Tung Mei	23/11/2006	0.62	1,560,000	–	–	–	1,560,000	23/11/2006 – 17/10/2012
	23/11/2006	0.62	1,560,000	–	–	–	1,560,000	23/5/2007 – 17/10/2012
	23/11/2006	0.62	3,120,000	–	–	–	3,120,000	23/11/2007 – 17/10/2012
Chan Ting	23/11/2006	0.62	1,560,000	–	–	–	1,560,000	23/11/2006 – 17/10/2012
	23/11/2006	0.62	1,560,000	–	–	–	1,560,000	23/5/2007 – 17/10/2012
	23/11/2006	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 2007	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 30 June 2008	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
Total			24,870,000	–	(1,600,000)	–	23,270,000	

The closing prices of the Company's shares on 18 August 2004, the date of grant of the share options, was HK$0.64 (adjusted to HK$0.427 due to issue of bonus shares on 1 November 2006).

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.

(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 Director	Capacity	Number of Warrants and number of Shares entitled pursuant to the full exercise of the Warrants held as at 30 June 2008
Cheung Kwai Lan	Beneficial owner	276,000
Lau Hin Kun	Beneficial owner	90,000

Save as disclosed above, as at 30 June 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 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 2008, 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 Long position	Number of shares held Short position	Approximate percentage of shareholding
Best Frontier Investments Limited	Beneficial owner	2,191,457,322 (Note 1)	–	67.74%
Oppenheimer International Small Company Fund	Investment manager	165,000,000 (Note 2)	–	5.10%
OppenheimerFunds, Inc.	Investment manager	165,000,000 (Note 2)	–	5.10%
Mega Capital International Limited	Beneficial owner	162,876,520 (Note 3)	–	5.03%
Wong Sorahardjo	Interest in controlled corporation	162,876,520 (Note 3)	–	5.03%

Notes:

1. The 2,191,457,322 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. Oppenheimer International Small Company Fund is managed by OppenheimerFunds, Inc.

3. Mega Capital International Limited is 100% owned by Mr. Wong Sorahardjo. Accordingly, Mr. Wong Sorahardjo is deemed to be interested in the Shares held by Mega Capital International Limited.

(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 2008
Best Frontier Investments Limited	Beneficial owner (Note 1)	48,226,000
Oppenheimer International Small Company Fund	Investment manager (Note 2)	22,000,000
OppenheimerFunds, Inc.	Investment manager (Note 2)	22,000,000

Note:

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. Oppenheimer International Small Company Fund is managed by OppenheimerFunds, Inc.

Save as disclosed above, as at 30 June 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.

Directors' Report

CONNECTED TRANSACTION

During the year, the following transaction between certain connected parties (as defined in the GEM Listing Rules) and the Company have been entered into and/or are on-going for which relevant announcements, if necessary, have been made by the Company in accordance with the requirements of the GEM Listing Rules:

On 17 January 2008, the Company entered into a conditional sale and purchase agreement (the "SPA") whereby the Company conditionally agreed to purchase and the Vendors (as defined in the Company's announcement dated 17 January 2008) conditionally agreed to sell the entire issued share capital of Grand Promise International Limited at a consideration of US$200 million, which shall be satisfied by the allotment and issue of 2,262,173,906 new ordinary shares of the Company at an issue price of HK$0.69 per share. Best Frontier Investments Limited ("Best Frontier"), one of the Vendors in the SPA, is a controlling shareholder and connected person of the Company. As the relevant applicable percentage ratio of the SPA pursuant to Rule 19.07 of the GEM Listing Rules exceeds 100%, and Best Frontier is a controlling shareholder and connected person (as defined in the GEM Listing Rules) of the Company, the SPA constitutes a very substantial acquisition and connected transaction of the Company under the GEM Listing Rules and the Company is subject to the requirements of reporting, announcement and approval by independent shareholders (by way of poll) at an extraordinary general meeting under the GEM Listing Rules. At an extraordinary general meeting of the Company held on 3 April 2008, the SPA and the transaction contemplated therein were approved by independent shareholders of the Company. Completion of the SPA and the transactions contemplated therein took place on 11 April 2008.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 30 June 2008, the Group made 61.15% of its entire sales to five customers and sales to the largest customer included therein amounted to approximately 27.46%.

Purchases from the Group's five largest suppliers accounted for approximately 80.68% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 36.96%. 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.

DONATIONS

During the year, the Group made donations amounting to approximately HK$2.2 million (2007: HK$ Nil).

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 four Independent Non-executive Directors, namely Mr. Tian He Nian, Mr. Zhang Xiu Fu, 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 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. Four meetings were held during the current financial year.

The Company has received from each of the four 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 four Independent Non-executive Directors are independent.

AUDITORS

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

On behalf of the Board

Madam Cheung Kwai Lan
Chairman

Hong Kong, 25 September 2008

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 46 to 128, which comprise the consolidated balance sheet as at 30 June 2008, 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.

Independent Auditor's Report

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.

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 2008 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, 25 September 2008

Consolidated Income Statement

For the year ended 30 June 2008

	Notes	2008 HK$'000	2007 HK$'000
Continuing operations			
Revenue	8	**144,085**	88,246
Cost of sales		**(94,367)**	(63,410)
Gross profit		**49,718**	24,836
Other revenue	8	**5,612**	5,908
Selling and distribution costs		**(16,255)**	(4,972)
Administrative expenses		**(108,277)**	(134,223)
Gain on disposal of subsidiaries		**–**	30,635
Loss on deemed disposal of a subsidiary held by a jointly controlled entity		**(7)**	–
Finance costs	9	**(41,874)**	(24,526)
Share of results of associates		**(40)**	–
Loss before income tax	10	**(111,123)**	(102,342)
Income tax expenses	13	**(1,891)**	(1,411)
Loss for the year from continuing operations		**(113,014)**	(103,753)
Discontinued operations			
Profit for the year from discontinued operations	14	**–**	272
Loss for the year		**(113,014)**	(103,481)
Attributable to:			
Equity holders of the Company		**(116,405)**	(72,521)
Minority interests		**3,391**	(30,960)
		(113,014)	(103,481)
Loss per share	16		
From continuing and discontinued operations			
Basic		**(HK8.03 cents)**	(HK7.75 cents)
From continuing operations			
Basic		**(HK8.03 cents)**	(HK7.78 cents)

Consolidated Balance Sheet

At 30 June 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment	17	**276,868**	235,697
Goodwill	18	**2,297,186**	280,689
Other intangible assets	19	**5,358**	2,603
Interest in associates	20	**2,127**	238
Available-for-sale financial asset	21	**63,780**	–
Prepaid lease payments	22	**15,502**	12,496
Construction in progress	23	**6,912**	14,004
		2,667,733	545,727
Current assets			
Inventories	24	**6,912**	6,536
Trade and other receivables and prepayments	25	**114,487**	89,656
Prepaid lease payments – current portion	22	**452**	380
Tax recoverable		**680**	–
Pledged bank deposits		**5,033**	5,000
Bank balances and cash	26	**292,600**	204,722
		420,164	306,294
Current liabilities			
Trade and other payables	27	**66,093**	57,528
Tax liabilities		**539**	1,422
Derivative financial instruments	29(b)	**100,861**	–
Bank and other borrowings – due within one year	28	**66,745**	5,617
		234,238	64,567
Net current assets		**185,926**	241,727
Total assets less current liabilities		**2,853,659**	787,454
Non-current liabilities			
Bank and other borrowings	28	**114,251**	106,105
Convertible bonds	29(a)&(b)	**471,097**	243,144
		585,348	349,249
Net assets		**2,268,311**	438,205

Consolidated Balance Sheet

At 30 June 2008

	Notes	2008 HK$'000	2007 HK$'000
Capital and reserves			
Share capital	30	**32,353**	9,361
Reserves		**2,215,272**	416,336
Equity attributable to equity holders of the Company		**2,247,625**	425,697
Minority interests		**20,686**	12,508
Total equity		**2,268,311**	438,205

The financial statements on pages 46 to 128 were approved and authorized for issue by the board of directors on 25 September 2008 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 2008

	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 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
At 1 July 2007	9,361	286,884	10,712	35,572	122,746	8,136	(1)	(47,713)	425,697	12,508	438,205
Shares issued pursuant to sale and purchase agreement	22,622	1,854,982	–	–	–	–	–	–	1,877,604	–	1,877,604
Conversion of convertible bonds	1	83	–	–	–	–	–	–	84	–	84
Shares issued for repayment of loan	200	16,419	–	–	–	–	–	–	16,619	–	16,619
Shares issued on exercise of options	169	8,360	–	–	–	–	–	–	8,529	–	8,529
Release of share option reserve	–	–	–	–	(120,002)	–	–	120,002	–	–	–
Recognition of equity-settled share based payments	–	–	–	–	8,538	–	–	–	8,538	–	8,538
Released on deemed disposal of a subsidiary held by a jointly controlled entity	–	–	–	–	–	(12)	–	–	(12)	(737)	(749)
Capital contribution from minority shareholders	–	–	–	–	–	–	–	–	–	4,556	4,556
Exchange differences on translation of financial statement of overseas operations	–	–	–	–	–	26,971	–	–	26,971	968	27,939
Net (loss) profit for the year	–	–	–	–	–	–	–	(116,405)	(116,405)	3,391	(113,014)
At 30 June 2008	32,353	2,166,728	10,712	35,572	11,282	35,095	(1)	(44,116)	2,247,625	20,686	2,268,311

Consolidated Cash Flow Statement

For the year ended 30 June 2008

	Notes	2008 HK$'000	2007 HK$'000
OPERATING ACTIVITIES			
Loss before income tax		**(111,123)**	(102,039)
Adjustment for:			
Interest income		**(3,857)**	(2,460)
Interest expenses		**41,874**	24,537
Depreciation of property, plant and equipment		**28,837**	10,670
Allowance for doubtful receivable		**5,848**	–
Loss on disposal of property, plant and equipment		**31**	70
Impairment of goodwill		**–**	145
Gain on disposal of subsidiaries		**–**	(30,635)
Amortization of prepaid lease payment		**461**	152
Loss on deemed disposal of a subsidiary held by a jointly controlled entity		**7**	–
Share option expenses		**8,538**	83,347
Amortization of other intangible assets		**1,943**	1,848
Loss arising from settlement of financial liabilities by issuing of shares		**2,810**	–
Provision for obsolete inventories		**438**	–
Share of results of associates		**40**	–
Loss arising on change of fair value of derivative financial instruments	29(b)	**13,347**	–
Operating cash flows before movements in working capital		**(10,806)**	(14,365)
Increase in inventories		**(958)**	(1,712)
Increase in trade and other receivables and prepayments		**(25,540)**	(872)
Increase in trade and other payables		**20,838**	16,264
Cash used in operations		**(16,466)**	(685)
Tax paid		**(3,846)**	(1,623)
NET CASH USED IN OPERATING ACTIVITIES		**(20,312)**	(2,308)

Consolidated Cash Flow Statement

For the year ended 30 June 2008

	Notes	2008 HK$'000	2007 HK$'000
INVESTING ACTIVITIES			
Interest received		**3,857**	2,484
Purchases of property, plant and equipment		**(14,191)**	(46,620)
Purchases of other intangible assets		**(693)**	–
Purchases of construction in progress		**(17,249)**	(5,871)
(Increase)decrease in pledged bank deposits		**(33)**	8,308
Cash consideration on acquisition of jointly controlled entities	32	**–**	(120,902)
Reduction on minority shareholding		**–**	(96,773)
Proceeds from disposal of property, plant and equipment		**–**	21
Proceeds from disposal of subsidiaries	32	**–**	31,219
Acquisition of subsidiaries, net of cash and cash equivalents acquired	32	**138,160**	–
Deemed disposal of a subsidiary held by a jointly controlled entity	32	**(208)**	–
Purchases of prepaid lease payments		**(2,191)**	(99)
NET CASH FROM (USED IN) INVESTING ACTIVITIES		**107,452**	(228,233)
FINANCING ACTIVITIES			
Interest paid		**(5,306)**	(4,464)
Issue of shares		**8,529**	–
Net repayment of borrowing		**(17,929)**	(39,354)
Capital contribution from minority interests		**4,556**	3,162
Proceeds from issue of convertible bonds		**–**	234,000
Dividend paid to minority shareholders of subsidiaries		**–**	(10,117)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		**(10,150)**	183,227
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**76,990**	(47,314)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**204,722**	244,983
Effect of foreign exchange rate changes		**10,888**	7,053
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by			
Bank balances and cash		**292,600**	204,722

Notes to the Consolidated Financial Statements

For the year ended 30 June 2008

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 and the functional currency of the Company's subsidiaries and jointly controlled entities is Renminbi ("RMB"). As the Company is listed in Hong Kong, the directors consider that it is appropriate to present the consolidated financial statements in Hong Kong dollars.

The principal activities of the Company is investment holding. The activities of its principal subsidiaries and jointly controlled entities are set out in note 42 and 43 respectively.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations ("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 2007.

HKAS 1 (Amendment)	Capital disclosures
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC) – INT 8	Scope of HKFRS 2
HK(IFRIC) – INT 9	Reassessment of embedded derivatives
HK(IFRIC) – INT 10	Interim financial reporting and impairment
HK(IFRIC) – INT 11	HKFRS 2 – Group and treasury share transactions

The application of the new and amended HKFRSs has no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior years under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of financial statements[1]
HKAS 23 (Revised)	Borrowing costs[1]
HKAS 27 (Revised)	Consolidated and separate financial statements[2]
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation[1]
HKFRS 2 (Amendments)	Vesting conditions and cancellations[1]
HKFRS 3 (Revised)	Business combinations[2]
HKFRS 8	Operating segments[1]
HK(IFRIC) – INT 12	Service concession arrangements[3]
HK(IFRIC) – INT 13	Customer loyalty programmes[4]
HK(IFRIC) – INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction[3]
HK(IFRIC) – INT 15	Agreements for the contribution of real estate[1]
HK(IFRIC) – INT 16	Hedges of a net investment in a foreign operations[5]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 January 2008
[4] Effective for annual periods beginning on or after 1 July 2008
[5] Effective for annual periods beginning on or after 1 October 2008

The adoption of HKFRS 3 (revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

The directors of the Company anticipate that the application of the other new or revised standards and interpretations will have no material impact on the results and the financial position of the Group.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2008

3. SIGNIFICANT ACCOUNTING POLICIES

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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Business combinations – continued

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Goodwill – continued

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.

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

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Investment in associates – continued

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

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 and loss.

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

Revenue recognition

Revenue 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.

Revenue from the provision of Karaoke CMS services fee is recognized when contractual obligations have been established for provision of such services with the customers.

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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2008

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Property, plant and equipment

Property, plant and equipment, comprising leasehold land and buildings, plant and machinery, furniture, fixtures and equipment, motor vehicles, computer 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 equipment 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.

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 used 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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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.

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 and account for as property, plant and equipment.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Impairment losses on assets other than goodwill – continued

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Intangible assets – continued

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.

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 2008

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 two categories, including loans and receivables 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.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period. Income is recognized on an effective interest basis for debt instruments.

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 and prepayments and bank balances and cash) are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as (a) loans and receivables, (b) held to maturity investments or (c) financial assets at fair value through profit or loss. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognized in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognized in equity is removed from equity and recognized in profit or loss.

Impairment of financial assets

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or

- default or delinquency in interest or principal payments; or

- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For accounts receivables that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include Group's past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, 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 asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When the trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2008

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Impairment of financial assets – continued

For financial assets measured at amortized cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent 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. Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognized directly in equity.

Financial liabilities and equity

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

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

Effective interest method

The effective interest method is a method of calculating the amortized cost of financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Interest expense is recognized on an effective interest basis.

Financial liabilities

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

(i) 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.

(ii) Convertible bonds that contain liability component and conversion/redemption option derivatives

Convertible bonds issued by the Group that contain liability and conversion/redemption option derivatives components are classified separately into respective items on initial recognition. Conversion option derivatives that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. The redemption option derivatives represent the redemption at the option of the bond holders before the maturity date. At the date of issue, both the liability and conversion/redemption option components are recognised at fair value.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The conversion/redemption option derivative is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that related to the issue of the convertible bonds are allocated to the liability and conversion/redemption option components in proportion to the allocation of the proceeds. Transaction costs relating to the conversion/redemption option derivatives is charged to profit and loss immediately. 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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2008

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Equity instruments

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

Derivative financial instruments

Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in profit or loss as they arise.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are separated from the relevant host contracts (the liability component) and deemed as held-for-trading when the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contracts, and the combined contracts are not measured at fair value through profit or loss. In all other circumstances, derivatives embedded are not separated and are accounted for together with the host contracts in accordance with appropriate standards. Where the Group needs to separate an embedded derivative but is unable to measure the embedded derivative, the combined contract is treated as held-for-trading.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Taxation – continued

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 and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

Foreign currencies

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

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

Notes to the Consolidated Financial Statements

For the year ended 30 June 2008

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Foreign currencies – continued

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's entities are translated into the presentation currency of the Group (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

Cash and cash equivalents are carried in the balance sheet at cost.

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

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

Provisions

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, 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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Related parties

A party is considered to be related to the Group if:

(i) directly, or indirectly through one or more intermediaries, the party:

- controls, is controlled by, or is under common control with, the Company or Group;
- has an interest in the Company that gives it significant influence over the Company or Group; or
- has joint control over the Company or Group;

(ii) the party is an associate;

(iii) the party is a jointly-controlled entity;

(iv) the party is a member of the key management personnel of the Company or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Company or Group, or of any entity that is a related party of the Company or Group.

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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2008

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

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual cash flows are less than expected, a material impairment loss may arise. As at 30 June 2008, the carrying amount of goodwill is HK$2,297,186,000 (2007: HK$280,689,000). Details of the recoverable amount calculation are disclosed in note 18.

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 tax

As at 30 June 2008, no deferred tax asset was recognized in the Group's consolidated balance sheet in relation to the estimated unused tax losses of approximately HK$77,399,000 (2007: HK$42,276,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are more than expected, a material recognition of deferred tax asset may arise, which would be recognized in the income statement for the period in which such recognition takes place.

Share option 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 31 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 INSTRUMENTS

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings and convertible bonds disclosed notes 28 and 29 respectively, and equity attributable to equity holders of the Company, comprising issued share capital disclosed in note 30, reserves and accumulated profits as disclosed in consolidated statements of changes in equity. The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt. The Group's overall strategy remains unchanged throughout the year.

Categories of financial instruments

	2008	2007
	HK$'000	HK$'000
Financial assets		
Available-for-sales financial asset	**63,780**	–
Held-for-trading investments	**–**	–
Loans and receivables (including cash and cash equivalents)	**412,120**	299,378
Derivative financial assets	**–**	–
Financial liabilities		
Amortized cost	**718,186**	412,394
Derivative financial liabilities	**100,861**	–

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables and prepayments, trade and other payables, derivative financial liabilities 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 credit risk is primarily attributable to its trade and other receivables and bank balances. At the respective balance sheet dates, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arising from the carrying amount of the respective recognized financial assets stated in the consolidated balance sheet.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2008

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Credit risk – continued

In order to minimize the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt 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.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

The credit risk on liquid funds is limited because the counterparties are authorized banks in Hong Kong and the PRC.

Foreign currency risk

The Group collects most of its revenue in RMB and incurs most of its expenditure including capital expenditure in RMB. Future exchange rates of RMB could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the PRC government. The exchange rates may also be affected by economic developments and political changes domestically and internationally, and supply and demand of RMB. The appreciation or devaluation of RMB against foreign currencies may have positive or negative impact on the results of operations of the Group.

As at balance sheet date, the Group has convertible bonds, certain bank balances and borrowings denominated in Singaporean dollars ("SGD"), Hong Kong dollars and United State dollars ("USD"), which are the currencies other than the functional currency of respective group entities. The carrying amounts of the Group's foreign currency denominates monetary assets and liabilities are as follows:

	Assets		**Liabilities**	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
SGD	**180**	262	**17**	243
Hong Kong Dollars	**2,358,804**	383,724	**376,330**	269,320
USD	**194,418**	4,413	**298,058**	10

The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises. The directors considered that the Group's exposure to foreign currency exchange risk is insignificant as the majority of the Group's transactions are denominated in the functional currency of the respective group entities.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Foreign currency risk – continued

The Company uses a 5% sensitivity rate to report foreign currency risk internally to key management personnel and represents management's assessment of the reasonable possible change in foreign exchange rates. If RMB had strengthened/weakened by 5%, loss for the year ended 30 June 2008 would have been increased/decreased by approximately HK$121,400 as a result of foreign exchange losses/gains on translation of transactions denominated in Hong Kong dollars (2007: decreased/ increased by approximately HK$60,600).

If US$ had strengthened/weakened by 5% loss for the year ended 30 June 2008 would have been decreased/increased by approximately HK$38,500,000 (2007: increased/decreased by approximately HK$1,635,000). This is mainly attributable to the exposure on the outstanding bank balances and convertible bonds denominated in US$ at the year end.

Interest rate risk

The Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. Management does not anticipate significant impact on interest-bearing assets resulted from the changes in interest rates because the interest rates of bank deposits are not expected to change significantly.

The Group's interest rate risk arises from bank and other borrowings and convertible bonds. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk. Details of the Group's bank and other borrowings are set out in note 28.

The Group is also exposed to fair value interest rate risk in relation to convertible bonds. It is the Group's policy to keep its borrowings at fixed rate so as to minimize the cash flow interest rate risk.

Sensitive analysis

At 30 June 2008, it is estimated that a general increase or decrease of 100 basis points in interest rates on HK$ denominated borrowings, with all other variable held constant, would increase/decrease the Group's loss by approximately HK$832,000 (2007: HK$194,000). The above sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instrument in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis was performed on the same basis for 2007.

Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Liquidity risk – continued

The following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay:

Year 2008

	Carrying amounts HK$'000	Total contractual undiscounted cash flows HK$'000	Within 1 year or on demands HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Over 5 years HK$'000
Trade and other payables	66,093	66,093	66,093	–	–	–
Tax liabilities	539	539	539	–	–	–
Bank and other borrowings	180,996	180,996	66,745	63,704	40,054	10,493
Convertible bonds	571,958	571,958	100,861	–	471,097	–
	819,586	819,586	234,238	63,704	511,151	10,493

Year 2007

	Carrying amounts HK$'000	Total contractual undiscounted cash flows HK$'000	Within 1 year or on demands HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Over 5 years HK$'000
Trade and other payables	57,528	57,528	57,528	–	–	–
Tax liabilities	1,422	1,422	1,422	–	–	–
Bank and other borrowings	111,722	111,722	5,617	28,031	63,307	14,767
Convertible bonds	243,144	243,144	–	–	243,144	–
	413,816	413,816	64,567	28,031	306,451	14,767

Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 30 June 2008 and 2007.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2008

7. SEGMENT INFORMATION

a. Business segments

	Year ended 30 June 2008										
	Continuing operations								Discontinued operations		
	Distribution of natural supplementary products	Provision of lottery-related hardware and software systems	Distribution of edible oil	Profit sharing on oil field	Gas related	Karaoke CMS	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	HK$'000
Revenue	2,707	35,715	39,562	–	65,793	226	82	144,085	–	–	144,085
Segment results	(6,854)	8,814	(28)	(840)	836	(1,915)	(495)	(482)	–	–	(482)
Unallocated income								3,604	–	–	3,604
Unallocated expenses								(72,324)	–	–	(72,324)
Finance costs								(41,874)	–	–	(41,874)
Share of results of associates								(40)	–	–	(40)
Loss on deemed disposal of a subsidiary held by a jointly controlled entity								(7)	–	–	(7)
Loss before income tax								(111,123)	–	–	(111,123)
Income tax expenses								(1,891)	–	–	(1,891)
Loss for the year								(113,014)	–	–	(113,014)

Notes to the Consolidated Financial Statements

For the year ended 30 June 2008

7. SEGMENT INFORMATION – continued

a. Business segments – continued

	Year ended 30 June 2007									
	Continuing operations							Discontinued operations		
	Distribution of natural supplementary products HK$'000	Provision of lottery-related hardware and software systems HK$'000	Distribution of edible oil HK$'000	Profit sharing on oil field HK$'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
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 income tax							(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)

7. SEGMENT INFORMATION – continued

a. Business segments – continued

	Year ended 30 June 2008							
	Distribution of natural supplementary products HK$'000	Provision of lottery-related hardware and software systems HK$'000	Distribution of edible oil HK$'000	Profit sharing on oil field HK$'000	Gas related HK$'000	Karaoke CMS HK$'000	Others HK$'000	Consolidated HK$'000
ASSETS								
Segment assets	22,120	75,597	1,754	33,126	290,486	57,563	3,857	484,503
Unallocated assets								2,603,394
Total assets								3,087,897
LIABILITIES								
Segment liabilities	699	31,390	457	1,672	117,157	790	585	152,750
Unallocated liabilities								666,836
Total liabilities								819,586

OTHER INFORMATION

	Continuing operations								Discontinued operations		
	Distribution of natural supplementary products HK$'000	Provision of lottery-related hardware and software systems HK$'000	Distribution of edible oil HK$'000	Profit sharing on oil field HK$'000	Gas related HK$'000	Karaoke CMS HK$'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	889	9,440	–	33	17,673	559	243	28,837	–	–	28,837
Amortization of prepaid lease payments	–	–	–	–	461	–	–	461	–	–	461
Capital expenditure	671	2,634	–	2	12,837	197	23	16,364	–	–	16,364
Other non-cash expenses	–	–	–	–	–	–	44,025	44,025	–	–	44,025
Allowances for doubtful receivable	195	14	–	–	856	–	4,783	5,848	–	–	5,848
Provision for obsolete inventories	438	–	–	–	–	–	–	438	–	–	438

Notes to the Consolidated Financial Statements

For the year ended 30 June 2008

7. 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	Distribution of edible oil HK$'000	Profit sharing on oil field HK$'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	Distribution of edible oil HK$'000	Profit sharing on oil field HK$'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 2008

7. SEGMENT INFORMATION – continued

b. Geographical market segments

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

			Elimination		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Geographical market						
Segment revenue:						
PRC	**101,816**	44,471	**–**	(487)	**101,816**	43,984
Hong Kong	**2,707**	2,279	**–**	–	**2,707**	2,279
South East Asia	**39,562**	44,518	**–**	–	**39,562**	44,518
Europe	**–**	680	**–**	–	–	680
Total	**144,085**	91,948	**–**	(487)	**144,085**	91,461
Segment results:						
PRC					**6,400**	6,317
Hong Kong					**(6,854)**	(664)
South East Asia					**(28)**	14
Europe					**–**	2
Unallocated income					**3,604**	15,658
Unallocated expenses					**(72,324)**	(129,464)
Finance costs					**(41,874)**	(24,537)
Gain on disposal of subsidiaries					**–**	30,635
Share of results of associates					**(40)**	–
Loss on deemed disposal of a subsidiary held by a jointly controlled entity					**(7)**	–
Loss before income tax					**(111,123)**	(102,039)
Income tax expenses					**(1,891)**	(1,442)
Loss for the year					**(113,014)**	(103,481)

Notes to the Consolidated Financial Statements

For the year ended 30 June 2008

8. 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) distribution of edible oil, (iv) holding profit sharing right of oil field, (v) sales of gas and gas appliances, provision of gas transportation services and installation services for gas connected and (vi) provision of Karaoke CMS services.

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

Revenue recognized during the year is as follows:

	2008	2007
	HK$'000	HK$'000
Continuing operations		
Revenue		
Distribution of natural supplementary products	**2,707**	2,279
Provision of lottery-related hardware and software systems	**35,715**	28,283
Distribution of edible oil	**39,562**	42,912
Gas related	**65,793**	14,743
Provision of Karaoke CMS services	**226**	–
Sales of goods	**82**	29
	144,085	88,246
Discontinued operations		
Manufacturing and distribution of honey mead	**–**	929
Operation of restaurant	**–**	2,286
	–	3,215
	144,085	91,461
Continuing operations		
Other revenue		
Interest income	**3,857**	2,460
Others	**1,755**	3,448
	5,612	5,908
Discontinued operations		
Others	**–**	3
	5,612	5,911

9. FINANCE COSTS

	Continuing operations		Discontinued operations	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Interest on borrowings wholly repayable within five years	**2,039**	2,736	**–**	11
Interest on borrowings wholly repayable after five years	**4,348**	1,934	**–**	–
Interest on convertible bonds	**35,487**	19,856	**–**	–
	41,874	24,526	**–**	11

10. LOSS BEFORE INCOME TAX

	Continuing operations		Discontinued operations	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Loss before income tax has been arrived at after charging (crediting):				
Staff costs (excluding directors' emoluments – note 11):				
Wages and salaries	**17,648**	13,428	**–**	664
Retirement benefits scheme contributions	**297**	217	**–**	–
Total staff costs	**17,945**	13,645	**–**	664
Auditors' remuneration	**1,468**	968	**–**	–
Amortization of other intangible assets	**1,943**	1,848	**–**	–
Depreciation of property, plant and equipment (Note 1)	**28,837**	10,316	**–**	354
Operating lease rentals in respect of land and building	**3,528**	1,872	**–**	–
Cost of inventories recognized as expenses	**94,367**	63,410	**–**	1,062
Loss on disposal of property, plant and equipment	**31**	70	**–**	–
Bad debts	**–**	74	**–**	–
Allowance for doubtful receivable	**5,848**	–	**–**	–
Share option expenses	**8,538**	83,347	**–**	–
Impairment of goodwill	**–**	145	**–**	–
Net foreign exchange gains	**(8,685)**	(5,805)	**–**	–
Provision for obsolete inventories	**438**	–	**–**	–
Loss on change on fair value of derviative financial instrument (Note 2)	**13,347**	–	**–**	–
Loss arising from settlement of financial liabilities by issuing of shares	**2,810**	–	**–**	–
Loss on deemed disposal of a subsidiary held by a jointly controlled entity	**7**	–	–	–

Note 1: For the year ended 30 June 2008, cost of inventories included approximately of HK$10,583,000 (2007: HK$2,380,000) relating to depreciation expenses, which amount is also included in the respective total amounts disclosed separately above in the note 10 for each of these types.

Note 2: Arising from convertible bonds, please refer to note 29(b).

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

Emoluments paid or payable to each of the 9 (2007: 8) directors of the Company during the year were as follows:

For the year ended 30 June 2008

	Fees HK$'000	Salaries and other emoluments HK$'000	Contribution to retirement benefits scheme HK$'000	Total HK$'000
Executive Directors:				
Cheung Kwai Lan	107	3,300	–	3,407
Chan Tung Mei	78	1,100	–	1,178
Chan Ting	107	2,200	12	2,319
Chan Siu Sarah (Note 1)	7	160	1	168
Lau Hin Kun	78	282	12	372
Independent Non-executive Directors:				
Tian He Nian	133	–	–	133
Zhang Xiu Fu (Note 2)	180	–	–	180
Zhao Zhi Ming	117	–	–	117
To Yan Ming Edmond	125	–	–	125
	932	7,042	25	7,999

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For the year ended 30 June 2008

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

(a) Directors' emoluments – continued

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 Tung Mei	78	650	–	728
Chan Ting	102	1,300	20	1,422
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 3)	25	–	–	25
	744	4,212	36	4,992

Notes:

1. appointed on 28 May 2008
2. appointed on 25 January 2008
3. retired on 24 October 2006

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

(b) Senior management emoluments

Of the five individuals whose emoluments were the highest in the Group for the year include three (2007: two) Directors whose emoluments are set out in the above. The emoluments payable to the remaining two (2007: three) individual during the year as follows:

	2008 **HK$'000**	2007 HK$'000
Salaries, allowances and other benefits	**2,146**	4,756
Contributions to retirement benefits scheme	**19**	36
	2,165	4,792

The emoluments fell with the following bands:

	2008 **No. of individuals**	2007 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 2008, no emoluments have been paid by the Group to the three Directors (2007: two Directors) or the two (2007: three) highest paid individuals as an inducement to join the Group, or as compensation for loss of office.

12. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2008 **HK$'000**	2007 HK$'000
Wages and salaries	**25,622**	19,048
Pension cost – defined contribution plans	**322**	253
	25,944	19,301

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13. INCOME TAX EXPENSES

	Continuing operations		Discontinued operations		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
The charge comprises:						
Current year						
Hong Kong Profits Tax	**–**	–	**–**	–	**–**	–
Other jurisdictions	**4,259**	1,411	**–**	31	**4,259**	1,442
	4,259	1,411	**–**	31	**4,259**	1,442
Over-provisions in prior years						
Hong Kong Profits Tax	**–**	–	**–**	–	**–**	–
Other jurisdictions	**(2,368)**	–	**–**	–	**(2,368)**	–
	(2,368)	–	**–**	–	**(2,368)**	–
Income tax expenses charged for the year	**1,891**	1,411	**–**	31	**1,891**	1,442

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group had no assessable profit derived in Hong Kong for both years.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Pursuant to the relevant laws and regulations in the PRC, certain PRC jointly controlled entities of the Company are exempted from PRC Enterprise Income Tax for the first two years commencing from their first profit making year of operation and thereafter, these PRC entities will be entitled to a 50% relief from PRC for the following three years ("Tax Preference").

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations changes the PRC Enterprise Income Tax rate to 25% and will affect the PRC group entitles of the Company from 1 January 2008.

13. INCOME TAX EXPENSES – continued

On 26 December 2007, the State Council of the PRC issued a circular on the implementation of transitional preferential policies for PRC Enterprise Income Tax. Entities that are currently entitled to preferential tax rates under the old PRC Enterprise Income Tax Law can gradually transit to the new tax rate of 25% within 5 years after the enforcement of the New Law at a tax rate of 18%, 20%, 22%, 24% and 25% in year 2008, 2009, 2010, 2011 and 2012 respectively.

Entities that originally enjoy the Tax Preference can continue enjoying the Tax Preference based on the original tax rate until after the expiration of the Tax Preference. Entities that did not start Tax Preference before 2008 because they were still in loss position shall start the Tax Preference from 2008.

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

	2008 **HK$'000**	2007 HK$'000
Loss before income tax:		
Continuing operations	**(111,123)**	(102,342)
Discontinued operations	**–**	303
	(111,123)	(102,039)
Tax at the Hong Kong Profits Tax rate of 17.5% (2007: 17.5%)	**(19,447)**	(17,858)
Tax effect of expenses that are not deductible for tax purposes	**16,305**	33,820
Tax effect of income that is not taxable for tax purposes	**(4,074)**	(14,908)
Tax effect of tax losses not recognized	**11,193**	5,268
Tax effect of utilization of tax losses previously not recognized	**–**	(1,413)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**282**	(3,467)
Tax effect of over-provision in prior years	**(2,368)**	–
Income tax expenses	**1,891**	1,442

At the balance sheet date, the subsidiaries have unused tax losses of approximately HK$77,399,000 (2007: HK$42,276,000) 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$15,229,000 (2007: HK$11,705,000) that will expire within 2 to 4 years from the year origination. Other losses may be carried forward indefinitely.

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13. INCOME TAX EXPENSES – continued

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

	2008	2007
	HK$'000	HK$'000
Deductible temporary differences:		
Unutilized tax losses	**77,399**	42,276
Other	**7,828**	8,513
Taxable temporary differences:		
Accelerated tax allowances	**(569)**	(1,065)
	84,658	49,724

14. 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.

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 32.

14. DISCONTINUED OPERATIONS – continued

	2008 HK$'000	2007 HK$'000
Profit for the year from discontinued operations		
Revenue		
– manufacturing and sales of honey mead	–	929
– operation of a restaurant	–	2,286
	–	3,215
Expenses		
– manufacturing and sales of honey mead	–	(518)
– operation of a restaurant	–	(2,394)
	–	(2,912)
Profit before tax	–	303
Income tax expenses	–	(31)
Profit for the year from discontinued operations	–	272
Cash flows from discontinued operations		
Net cash flows from operating activities	–	5,139
Net cash flows from investing activities	–	(561)
Net cash flows from financing activities	–	(1,356)
Net cash flows	–	3,222

15. DIVIDENDS

No dividend was paid or proposed during the year ended 30 June 2008, nor has any dividend been proposed since the balance sheet date (2007: Nil).

16. LOSS PER SHARE

For continuing and discontinued operations

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

	2008 HK$'000	2007 HK$'000
Loss for the purposes of basic loss per share	**(116,405)**	(72,521)

Number of shares	'000	'000
Weighted average number of ordinary shares for the purpose of basic loss per share	**1,449,641**	936,079

No diluted loss per share has been presented in both years, as the outstanding share options, warrants 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:

	2008 HK$'000	2007 HK$'000
Loss for the year attributable to equity holders of the parent	**(116,405)**	(72,521)
Less: Profit for the year from discontinued operations	**–**	272
Loss for the purpose of basic loss per share from continuing operations	**(116,405)**	(72,793)

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 HKNil cent per share (2007: HK0.03 cents per share), based on the profit for the year from the discontinued operations of approximately HK$Nil (2007: HK$272,000) and the denominators detailed above for basic loss per share.

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Gas distribution network	Gas storage equipment	Furniture, fixtures and equipment	Plant and machinery	Leasehold improvement	Motor vehicles	Computer equipment	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST									
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 and at 1 July 2007	18,876	157,374	10,041	7,260	42,623	1,108	5,995	4,056	247,333
Exchange realignment	2,009	16,602	1,056	915	4,549	8	385	448	25,972
Additions	254	9,637	–	1,086	–	910	2,166	138	14,191
Acquired on acquisition of subsidiaries	–	–	–	7,884	–	334	721	–	8,939
Transfer from construction in progress	1,520	15,022	–	9,089	–	–	–	–	25,631
Deemed disposal of a subsidiary held by a jointly controlled entity	(50)	(1,818)	(160)	(17)	–	–	(54)	–	(2,099)
Disposal	–	–	–	(41)	–	–	–	–	(41)
At 30 June 2008	22,609	196,817	10,937	26,176	47,172	2,360	9,213	4,642	319,926
DEPRECIATION									
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)
Elimiated on disposals	–	–	–	(12)	–	–	(18)	–	(30)
At 30 June 2007 and at 1 July 2007	745	3,332	280	710	3,939	552	1,012	1,066	11,636
Exchange realignment	128	1,174	92	136	860	7	63	192	2,652
Charged for the year	867	14,640	1,122	1,876	7,844	466	1,164	858	28,837
Deemed disposal of a subsidiary held by a jontly controlled entity	(1)	(43)	(8)	(2)	–	–	(3)	–	(57)
Eliminated on disposals	–	–	–	(10)	–	–	–	–	(10)
At 30 June 2008	1,739	19,103	1,486	2,710	12,643	1,025	2,236	2,116	43,058
NET BOOK VALUES									
At 30 June 2008	20,870	177,714	9,451	23,466	34,529	1,335	6,977	2,526	276,868
At 30 June 2007	18,131	154,042	9,761	6,550	38,684	556	4,983	2,990	235,697

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17. PROPERTY, PLANT AND EQUIPMENT – continued

The leasehold land and buildings of the subsidiary is located in the PRC and held under medium lease term. The Group has pledged land and buildings having a net book value of approximately HK$Nil (2007: HK$5,834,000) 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$122,336,000 (2007: HK$113,432,000) has been pledged to secure general banking facilities granted to the Group's jointly controlled entity.

At 30 June 2008, none of the Group's property, plant and equipment was held under finance lease (2007: HK$Nil).

18. GOODWILL

	HK$'000
COST	
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 and at 1 July 2007	284,195
Arising on acquisition of subsidiaries	2,016,497
At 30 June 2008	**2,300,692**
IMPAIRMENT	
At 1 July 2006	(3,361)
Impairment loss recognized for the year	(145)
At 30 June 2007 and at 1 July 2007	(3,506)
Impairment loss recognized for the year	–
At 30 June 2008	**(3,506)**
CARRYING VALUES	
At 30 June 2008	**2,297,186**
At 30 June 2007	280,689

18. GOODWILL – continued

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 2008, addition of goodwill was arisen from acquisition of subsidiaries, Grand Promise International Limited and Best Delight Group Limited of approximately HK$1,877,427,000 and HK$139,070,000 respectively.

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 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 years period have been extrapolated using a steady growth rate, which is based on industry growth forecasts. The directors of the Company considered no impairment loss is necessary at 30 June 2008.

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19. OTHER INTANGIBLE ASSETS

	Research and development HK$'000	Patent HK$'000	Computer software in lottery systems HK$'000	Technical know-how HK$'000	Total HK$'000
COST					
At 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 and 1 July 2007	–	–	4,913	–	4,913
Acquired on acquisition of subsidiaries and jointly controlled entities	924	–	–	2,829	3,753
Additions	693	–	–	–	693
Exchange realignment	20	–	525	64	609
At 30 June 2008	**1,637**	**–**	**5,438**	**2,893**	**9,968**
AMORTIZATION					
At 1 July 2006	–	–	437	519	956
Disposal of subsidiaries	–	–	–	(519)	(519)
Charge for the year	–	–	1,848	–	1,848
Exchange realignment	–	–	25	–	25
At 30 June 2007 and at 1 July 2007	–	–	2,310	–	2,310
Charge for the year	–	–	1,937	6	1,943
Exchange realignment	–	–	357	–	357
At 30 June 2008	**–**	**–**	**4,604**	**6**	**4,610**
CARRYING VALUES					
At 30 June 2008	**1,637**	**–**	**834**	**2,887**	**5,358**
At 30 June 2007	–	–	2,603	–	2,603

The above intangible assets other than patent and research and development 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

20. INTEREST IN ASSOCIATES

	2008 HK$'000	2007 HK$'000
Cost of unlisted investment	**1,982**	238
Share of post-acquisition losses	**(40)**	–
Exchange realignment	**185**	–
At 30 June	**2,127**	238

The Group has interests in the following associates:

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 (Note 1) (Shenzhen Bozone Technology Services Co. Ltd.)	Incorporated	PRC	Registered capital	24.99%	Provision of lottery-related hardware and software systems
臨澧華油燃氣有限公司 (Note 2) (Linli Huayou Gas Co. Ltd.)	Incorporated	PRC	Registered capital	23.49%	Distribution of natural gas

Note 1: The associate was inactive and under deregistration process in the PRC.

Note 2: During the year ended 30 June 2008, Linli Huayou Gas Co., Limited ("Linli") is a subsidiary of a jointly controlled entity, Changde Huayou Gas Co., Limited ("Changde Huayou"), which holds 70% register capital of Linli. Due to the change in share structure of Linli, shareholding held by Changde Huayou was decreased to 48.61% and Linli became an associate of the Group. Loss arisen on deemed disposal of equity interest in Linli was approximately of HK$7,000.

Summarized financial information in respect of the Group's associates is set out below:

	2008 HK$'000	2007 HK$'000
Total assets	**9,958**	513
Total liabilities	**(964)**	(3)
Net assets	**8,994**	510
The Group's share of associates' net assets	**2,127**	127
Revenue	**2,838**	–
Loss for the year	**(170)**	(2)
The Group's share of result of associates	**(40)**	–

21. AVAILABLE-FOR-SALE FINANCIAL ASSET

	2008 **HK$'000**	2007 HK$'000
Unlisted investment, a cost less impairment	**63,780**	–

Unlisted investment represents investment in an unlisted equity securities issued by a private entity incorporated in the PRC. The Group holds 9.99% of shareholding right. In the opinion of the directors, the Group is unable to exercise significant influence on the financial and operation of the investee, therefore, the investment is classified as available-for-sale financial asset.

The unlisted investment is measured at cost less impairment at the balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are in the opinion that its fair value cannot be measured reliably. During the year ended 30 June 2008, impairment loss had not been made.

22. PREPAID LEASE PAYMENTS

	2008 **HK$'000**	2007 HK$'000
At 1 July	**12,876**	–
Acquisition of jointly controlled entities	**–**	12,645
Additions	**2,191**	99
Exchange realignment	**1,348**	284
	16,415	13,028
Less: Charged to consolidated income statement for the year	**(461)**	(152)
At 30 June	**15,954**	12,876
Analysis for reporting purposes:		
Non-current portion	**15,502**	12,496
Current portion	**452**	380
At 30 June	**15,954**	12,876

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

23. CONSTRUCTION IN PROGRESS

	2008 **HK$'000**	2007 HK$'000
At 1 July	**14,004**	–
Acquisition of jointly controlled entities	**–**	7,956
Additions	**17,249**	5,871
Deemed disposal of a subsidiary held by a jointly controlled entity	**(184)**	–
Transferred to property, plant and equipment	**(25,631)**	–
Exchange realignment	**1,474**	177
At 30 June	**6,912**	14,004

24. INVENTORIES

	2008 HK$'000	2007 HK$'000
Raw materials and consumables	**2,450**	6,150
Finished goods	**4,462**	386
At 30 June	**6,912**	6,536

All inventories are stated at cost.

25. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2008 HK$'000	2007 HK$'000
Trade receivables	**16,047**	10,861
Other receivables and prepayments	**104,288**	78,795
	120,335	89,656
Less: Allowances for doubtful receivable	**(5,848)**	–
At 30 June	**114,487**	89,656

Payment terms with customers are mainly on credit together with deposits. Invoices are normally payable within 180 days of issuance. The following is an aged analysis of trade receivables at the balance sheet dates:

	2008 HK$'000	2007 HK$'000
0 to 30 days	**6,873**	2,934
31 to 60 days	**4,077**	1,893
61 to 365 days	**3,708**	5,696
Over 1 year	**1,389**	338
	16,047	10,861

The trade receivables with carrying amount of HK$14,658,000 (2007: HK$9,702,000) are neither past due nor impaired at the reporting date.

The Group has policies for allowances for doubtful receivable which are based on the evaluation of collectibility and age analysis of accounts and on the management's judgement including the credit creditworthiness, collaterals and the past collection history of each customer.

25. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS – continued

During the year ended 30 June 2008, the Group made an allowance of HK$1,051,000 (2007: HK$Nil) in respect of trade receivables, which was past due at the reporting date with long age and slow repayments were received from respective customers since the due date. The directors considered the related receivables may be impaired and specified allowance is made.

Movement in the allowances for doubtful receivable:

	2008 **HK$'000**	2007 HK$'000
Balance at the beginning of the year	**–**	–
Charge for the year – trade receivables	**1,051**	–
Charge for the year – other receivables (Note 1)	**4,797**	–
At 30 June	**5,848**	–

Included in the Group's trade receivable with a carrying amount of HK$338,000 (2007: HK$1,159,000) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amount are still considered recoverable. The Group does not hold any collateral over these balances.

Other receivables and prepayments included:

(a) Prepayments for the drilling operation of Xin Jiang Oilfield in the PRC of approximately HK$34 million (2007: HK$30 million).

(b) Deposits for investment in a jointly controlled entity of approximately HK$4.7 million (2007: HK$Nil).

(c) Deposits held in securities dealer of a jointly controlled entity of approximately HK$16 million (2007: HK$Nil).

(d) Prepayment of professional fees for investments of approximately HK$25.1 million (Note 2) (2007: HK$29.8 million).

Note 1: Allowance for doubtful receivable of HK$4,675,000 was made against a solicitor in Singapore. For details, please refer to note 44.

Note 2: The amount was repaid after balance sheet date due to cancellation of potential investment projects.

The fair value of the Group's trade and other receivables and prepayments at 30 June 2008 was approximate to the corresponding carrying amount.

26. BANK BALANCES AND CASH

	2008 HK$'000	2007 HK$'000
Cash and bank deposits denominated in:		
Hong Kong dollar	**77,839**	28,493
Chinese Renminbi	**74,321**	174,787
United States dollar	**140,260**	1,180
Singaporean dollar	**180**	262
At 30 June	**292,600**	204,722

Included in the balance was approximately HK$74,321,000 (2007: HK$174,787,000), representing bank deposits denominated in Renminbi placed with banks in the PRC by the Group. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government. In addition, an amount of approximately HK$138,686,000 (2007: HK$Nil), representing bank deposits denominated in United States dollars placed with a bank in Hong Kong in an escrow account upon acquisition of subsidiaries and jointly controlled entities (the 50% proceeds of convertible bonds issued by Grand Promise). The release of the amount is subject to the jointly controlled entities of the Group in receiving of RMB7.5 million of copyright fees.

27. TRADE AND OTHER PAYABLES

	2008 HK$'000	2007 HK$'000
Trade payables	**6,823**	10,536
Other payables	**59,270**	46,992
At 30 June	**66,093**	57,528

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

	2008 HK$'000	2007 HK$'000
0 to 30 days	**27**	1,662
31 to 120 days	**–**	1,040
121 to 180 days	**169**	2,986
181 to 365 days	**2,885**	3,981
Over 1 year	**3,742**	867
At 30 June	**6,823**	10,536

The fair value of the Group's trade and other payables at 30 June 2008 was approximate to the corresponding carrying amount.

28. BANK AND OTHER BORROWINGS

	2008 HK$'000	2007 HK$'000
Other loans, unsecured (note a)	**83,246**	19,357
Other loan, secured (note b)	**17,474**	17,694
Bank loans, secured (note c)	**60,020**	57,724
Bank loan, unsecured (note d)	**20,256**	16,947
At 30 June	**180,996**	111,722

The Group's borrowings are repayable as follows:

	2008 HK$'000	2007 HK$'000
On demand or within one year	**66,745**	5,617
More than one year, but not exceeding two years	**63,704**	28,031
Two to five years	**40,054**	63,307
Over five years	**10,493**	14,767
	180,996	111,722
Less: Amount due within one year shown under current liabilities	**(66,745)**	(5,617)
Amount due after one year	**114,251**	106,105

The fair value of the Group's borrowings at 30 June 2008 was approximate to the corresponding carrying amount.

Notes:

a. Borrowings of approximately HK$16,500,000 (2007: HK$16,500,000) is interest bearing at 2% over prime rate, unsecured and not repayable in next twelve months.

Borrowings of approximately HK$55,401,000 (2007: HK$Nil) is unsecured, is interest bearing at prime rate and payable on demand.

Borrowings of approximately HK$11,345,000 (2007: HK$2,857,000) is unsecured, is interest bearing at prime rate and not repayable in next twelve months.

b. Borrowings of approximately HK$17,474,000 (2007: HK$17,694,000) is secured by a shareholder of a jointly controlled entity, interest charged at 2.55% per annum and has fixed repayment term.

c. Borrowings of approximately HK$60,020,000 (2007: 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$Nil (2007: HK$3,492,000) is secured by leasehold properties of a subsidiary and interest charged at 6.732% per annum.

d. Borrowings of approximately HK$20,256,000 (2007: HK$16,947,000) is unsecured, interest charged at 4.8% per annum and has fixed repayment term.

28. BANK AND OTHER BORROWINGS – continued

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 2008	**97,750**
At 30 June 2007	92,365

29. CONVERTIBLE BONDS

(a) 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.

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29. CONVERTIBLE BONDS – continued

(a) (Continued)

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 the Company's reserve account.

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

The movement of the liability component of the convertible bonds for the year is set out as follows:

	2008	2007
	HK$'000	HK$'000
Nominal value of convertible bonds issued	**234,000**	234,000
Equity component	**(10,712)**	(10,712)
Liability component at the issuance date	**223,288**	223,288
Imputed finance cost	**51,036**	19,856
Non-current liability component as at the balance sheet date at 30 June	**274,324** *(Note 2)*	243,144

(b) The Company issued convertible bonds with a principal amount of US$35 million. The convertible bonds are denominated in United State dollars. The convertible bonds holders are entitled to convert the convertible bonds into ordinary shares of the Company at a conversion price of HK$0.8 per each ordinary share. If any of the convertible bonds have not been converted, they will be redeemed on the maturity date at 141.06% of the outstanding principal amount of the Bonds.

Further details of the convertible bonds can also be found in the circular made by the Company dated 14 March 2008.

The convertible bonds contain two components: liability component and conversion option derivative. The effective interest rate of the liability component is 16.38%. The conversion option derivative is measured at fair value with changes in fair value recognised in profit and loss.

29. CONVERTIBLE BONDS – continued

(b) (Continued)

The movement of the liability component and conversion option derivative of the convertible bonds for the year is set out as below:

	Conversion option derivative component HK$'000	**Liability component** HK$'000
Nominal value at the issuance date	87,541	185,459
Interest expenses	–	11,365
Conversion during the year	(27)	(51)
Loss arising on changes of fair value	13,347	–
At 30 June 2008	100,861 *(Note 1)*	196,773 *(Note 2)*

Note 1: Recorded in current liabilities as derivative financial instruments.

Note 2: Total of approximately of HK$471,097,000 is recorded as non-current liabilities.

30. SHARE CAPITAL

	Number of shares '000	HK$'000
Authorized:		
At 1 July 2007 and 30 June 2008, shares of HK$0.01 each	20,000,000	200,000
Issued and fully paid:		
At 1 July 2006	624,053	6,241
Bonus issue on 1 November 2006	312,026	3,120
At 30 June 2007 and 1 July 2007, shares of HK$0.01 each	936,079	9,361
Shares issued on exercise of options	16,900	169
Conversion of convertible bonds	106	1
Shares issued for repayment of loan	20,023	200
Shares issued pursuant to sale and purchase agreement	2,262,174	22,622
At 30 June 2008, shares of HK$0.01 each	3,235,282	32,353

31. SHARE-BASED PAYMENT TRANSACTIONS

Pre-IPO Share Option Scheme

As at 30 June 2008, all options granted under the Pre-IPO Share Option Scheme were either exercised or 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.

No share options was granted during the year ended 30 June 2008.

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 141,210,000 outstanding share options brought forward from 1 July 2007, out of which 40,210,000 share options have been lapsed and 16,900,000 share options have been exercised. Thus there were a total of 84,100,000 share options outstanding as at 30 June 2008.

31. SHARE-BASED PAYMENT TRANSACTIONS – continued

Share Option Scheme – continued

2008

Categories of grantees	Date of grant	Exercise price HK$	Number of share options at 1 July 2007 '000	Granted during the year '000	Exercised during the year '000	Lapsed during the year '000	Number of share options at 30 June 2008 '000	Exercise period of share options
Cheung Kwai Lan	23/11/2006	0.62	1,560	–	–	–	1,560	23/11/2006 – 17/10/2012
	23/11/2006	0.62	1,560	–	–	–	1,560	23/5/2007 – 17/10/2012
	23/11/2006	0.62	3,120	–	–	–	3,120	23/11/2007 – 17/10/2012
Chan Tung Mei	23/11/2006	0.62	1,560	–	–	–	1,560	23/11/2006 – 17/10/2012
	23/11/2006	0.62	1,560	–	–	–	1,560	23/5/2007 – 17/10/2012
	23/11/2006	0.62	3,120	–	–	–	3,120	23/11/2007 – 17/10/2012
Chan Ting	23/11/2006	0.62	1,560	–	–	–	1,560	23/11/2006 – 17/10/2012
	23/11/2006	0.62	1,560	–	–	–	1,560	23/5/2007 – 17/10/2012
	23/11/2006	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
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

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31. 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 2007 '000	Granted during the year '000	Exercised during the year '000	Lapsed during the year '000	Number of share options at 30 June 2008 '000	Exercise period of share options
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
Eligible participants	18/8/2004	0.427 (adjusted)	37,000	–	(8,500)	–	28,500	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	–	(6,800)	–	32,330	23/11/2006 – 17/10/2012
Total			141,210	–	(16,900)	(40,210)	84,100	

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$1.90 due to issue of bonus shares on 1 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 84,100,000 additional ordinary shares of the Company at additional share capital of HK$841,000 and share premium of HK$45,800,500.

31. SHARE-BASED PAYMENT TRANSACTIONS – continued

Share Option Scheme – continued

At 30 June 2008, the number of the shares in respect of which option had been granted and remained outstanding under the scheme was 2.60% (2007: 15.09%) 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 ended 30 June 2007 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.

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	23/11/2006	0.62	–	1,560	–	–	1,560	23/11/2006 – 17/10/2012
	23/11/2006	0.62	–	1,560	–	–	1,560	23/5/2007 – 17/10/2012
	23/11/2006	0.62	–	3,120	–	–	3,120	23/11/2007 – 17/10/2012

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31. 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
Chan Tung Mei	23/11/2006	0.62	–	1,560	–	–	1,560	23/11/2006 – 17/10/2012
	23/11/2006	0.62	–	1,560	–	–	1,560	23/5/2007 – 17/10/2012
	23/11/2006	0.62	–	3,120	–	–	3,120	23/11/2007 – 17/10/2012
Chan Ting	23/11/2006	0.62	–	1,560	–	–	1,560	23/11/2006 – 17/10/2012
	23/11/2006	0.62	–	1,560	–	–	1,560	23/5/2007 – 17/10/2012
	23/11/2006	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
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

31. 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
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	

During the year ended 30 June 2007, 62,400,000 options were granted on 23 November 2006. The estimated fair value of the options granted is approximately HK$11,282,000.

Notes to the Consolidated Financial Statements

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31. SHARE-BASED PAYMENT TRANSACTIONS – continued

Share Option Scheme – continued

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$864,000 for the year ended 30 June 2008 (2007: HK$28,434,000) 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$7,674,000 (2007: HK$54,913,000) into the consolidated income statement.

32. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Acquisition of subsidiaries

For the year ended 30 June 2008, the Group acquired 100% equity interest in Grand Promise International Limited ("Grand Promise") and Best Delight Group Limited ("Best Delight") and their subsidiaries and jointly controlled entities at a consideration of approximately HK$1,877,604,000 and HK$139,000,000, respectively. For the acquisition of Grand Promise, the Group issued 2,262,173,906 ordinary shares of HK$0.01 per share for the acquisition. The closing price of the Company's share as at 11 April 2008, the completion date of the transaction was HK$0.83 and non-cash consideration of approximately HK$1,877,604,000 for this acquisition transaction was resulted. For the acquisition of Best Delight, the Group has paid cash consideration of HK$139,000,000.

Set out below is the details of Grand Promise and Best Delight upon completion of the acquisition and goodwill of approximately HK$1,877,427,000 and HK$139,070,000 was recorded in these transactions respectively.

	Grand Promise HK$'000	**Best Delight** HK$'000	**Total** HK$'000
NET ASSETS (LIABILITIES) ACQUIRED			
Property, plant and equipment	8,939	–	8,939
Available-for-sale financial asset	–	63,780	63,780
Research and development	924	–	924
Other intangible assets	2,829	–	2,829
Other receivables and prepayments	5,212	–	5,212
Bank balances and cash	277,044	116	277,160
Accruals and other payables	(895)	(65)	(960)
Other loan	(13,816)	(63,901)	(77,717)
Convertible bonds	(280,060)	–	(280,060)
	177	(70)	107
Goodwill on acquisition	1,877,427	139,070	2,016,497
Total consideration	1,877,604	139,000	2,016,604
SATISFIED BY			
Cash consideration	–	139,000	139,000
Shares allotted	1,877,604	–	1,877,604
	1,877,604	139,000	2,016,604
Net cash inflow arising on acquisition:			
Cash consideration	–	(139,000)	(139,000)
Bank balances and cash acquired	277,044	116	277,160
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	277,044	(138,884)	138,160

32. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT – continued

Acquisition of subsidiaries – continued

Note : Consideration for acquisition of Grand Promise was satisfied by allotment of 2,262,173,906 ordinary shares of the Company of HK$0.01 par values. Fair value of the shares allotted at the acquisition date was HK$0.83.

The acquirees' carrying amount of net assets before combination approximates to its fair value. Accordingly, no fair value adjustments are required. Grand Promise contributed to the Group's loss before taxation of approximately HK$2,369,000 between the date of acquisition to 30 June 2008.

Consideration for acquisition of Best Delight was satisfied by cash of HK$139,000,000.

Major non-cash transactions

(a) During the year ended 30 June 2008, the Group incurred share option expenses of approximately HK$8,538,000 (2007: HK$83,347,000).

(b) During the year, the Group incurred imputed interest on convertible bonds of approximately HK$35,487,000 (2007: HK$19,856,000).

Deemed disposal of a subsidiary held by a jointly controlled entity

During the year ended 30 June 2008, Linli Huayou Gas Co., Limited ("Linli") is a subsidiary of a jointly controlled entity, Changde Huayou Gas Co., Limited ("Changde Huayou"), which holds 70% registered capital of Linli. Due to the change in share structure of Linli, shareholding held by Changde Huayou decreased to 48.61% and Linli became an associate of the Group. Loss arisen on deemed disposal of equity interest in Linli was approximately of HK$7,000.

	Linli HK$'000
Property, plant and equipment	2,042
Accounts receivables	23
Prepayments, deposits and other receivables	4
Inventories	146
Construction in progress	184
Bank balances and cash	208
Accounts payables	(36)
Accrued liabilities and other payables	(71)
Net assets	2,500
Less: Minority interests	(737)
Less: Released of translation reserve	(12)
Net amount of assets disposed of	1,751
Loss on disposal	(7)
Represented by investment in an associate at the date of deemed disposal	1,744
Net cash outflow arising on deemed disposal:	
Bank balances and cash disposed of	208

32. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT – continued

Acquisition of jointly controlled entities

For the year ended 30 June 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 2008

32. 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 to 30 June 2007. Hunan Joint Venture contributed to the Group's loss before taxation of HK$5,204,000 between the date of acquisition to 30 June 2007.

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.

32. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT – continued

	Wuhu B&B and Zhuhai B&B HK$'000	GZ Latech HK$'000	La Cucina HK$'000	Bozone Mobile HK$'000	Total 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 2008

33. CONTINGENT LIABILITIES

The Company provided corporate guarantees to the extent of approximately HK$10,000,000 (2007: HK$10,000,000) to a bank to secure general banking facilities granted to a subsidiary.

The Company provided corporate guarantees to the extend of approximately HK$16,500,000 (2007: HK$16,500,000) to secure other loan granted to a subsidiary.

The total facilities utilized by the Group at 30 June 2008 amounted to approximately HK$16,500,000 (2007: HK$16,500,000).

34. OPERATING LEASE COMMITMENTS

The Group as lesser

As at 30 June 2008, the Group had commitments for future minimum lease payments in respect of rented premises under non-cancellable operating leases which fall due as follows:

	2008 **HK$'000**	2007 HK$'000
Within one year	**4,038**	2,149
In the second to fifth year inclusive	**2,880**	2,797
At 30 June	**6,918**	4,946

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

The Group as lessor

As at 30 June 2008, 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:

	2008 **HK$'000**	2007 HK$'000
Within one year	**314**	129
In the second to fifth year inclusive	**263**	246
At 30 June	**577**	375

Leases are negotiated for an average term of 2 years.

35. CAPITAL COMMITMENTS

	2008	2007
	HK$'000	HK$'000
Capital expenditure in respect of the capital injection to a subsidiary		
– authorized but not contracted for	**44,220**	39,956

36. 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$322,000 (2007: HK$253,000) 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.

37. 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 2008 (2007: Nil).

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For the year ended 30 June 2008

38. PLEDGE OF ASSETS

As at 30 June 2008, the Group has pledged all the issued and oustanding shares of Birdview Group Limited (a wholly-owned subsidiary of Grand Promise International Limited) together with all proceeds in favor of the holder(s) of the convertible bonds previously issued by Grand Promise and by the Deeds of Adherence on completion of acquisition of Grand Promise in April 2008, the convertible bonds were taken up by the Company.

At 30 June 2008, the Group has pledged its bank deposits of approximately HK$5,033,000 (2007: HK$5,000,000) and leasehold property at net book value of approximately HK$Nil (2007: HK$5,834,000) approximately as securities for the general banking facilities granted to the Group. As at 30 June 2008, 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$60,020,000 (2007: HK$54,232,000) has been secured by gas network of a jointly controlled entity, Hunan Joint Venture.

39. 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.

No share award was granted during the year ended 30 June 2008 (2007: Nil).

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.

40. COMPARATIVE FIGURES

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

41. 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:

	2008 HK$'000	2007 HK$'000
Short-term benefits	12,550	11,277
Post-employment benefits	94	108
	12,644	11,385

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

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the subsidiaries at 30 June 2008 are as follows:

Name of company	Place of incorporation/ operation	Class of shares held/ Issued and fully paid up shares/ registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Precise Result Profits Limited	British Virgin Islands	Ordinary share US$1	–	100%	Investment holding
Aptus Holdings Limited	Cayman Islands	Ordinary shares HK$17,443,914	–	55.71%	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%	Investment holding
B & B International Marketing (HK) Limited	Hong Kong	Ordinary shares HK$2	–	100%	Distribution of natural supplementary products

Notes to the Consolidated Financial Statements

For the year ended 30 June 2008

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY – continued

Name of company	Place of incorporation/ operation	Class of shares held/ Issued and fully paid up shares/ registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
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
雙遼市步得秸稈科技有限公司# (Shuang Liao City Step Gain Technology Limited†)	PRC	Registered capital HK$3,400,000	–	100%	Animal feed (玉米秸稈飼料)
Greatest Luck Limited	British Virgin Islands	Ordinary share US$1	–	100%	Investment holding
深圳生港蜂業有限公司# (B & B (Shenzhen) Limited†)	PRC	Registered capital US$10,000,000	100%	–	Investment holding

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY – continued

Name of company	Place of incorporation/ operation	Class of shares held/ Issued and fully paid up shares/ registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Ace Bingo Group Limited	British Virgin Islands	Ordinary share US$1	–	100%	Investment holding
Cheerfull Group Holdings Limited	British Virgin Islands	Ordinary shares 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科技有限公司# (Harbin Longjiang Fengcai Technology Co. Limited†)	PRC	Registered capital RMB500,000	–	33.15%	Provision of lottery-related hardware and software systems
Muller Group Limited	British Virgin Islands	Ordinary share US$1	–	100%	Investment holding
Lucky Villa Investments Limited	Hong Kong	Ordinary share HK$1	–	100%	Investment holding
Best Delight Group Limited	British Virgin Islands	Ordinary share US$1	–	100%	Investment holding
Lead Team Investments Limited	Hong Kong	Ordinary share HK$1	–	100%	Investment holding

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For the year ended 30 June 2008

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY – continued

Name of company	Place of incorporation/ operation	Class of shares held/ Issued and fully paid up shares/ registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Grand Promise International Limited	British Virgin Islands	Ordinary shares US$10,000	–	100%	Investment holding
Birdview Group Limited	Hong Kong	Ordinary share HK$1	–	100%	Investment holding
Good United Management Limited	British Virgin Islands	Ordinary share US$1	–	55.71%	Investment holding
Top Entrepreneur Profits Limited	British Virgin Islands	Ordinary shares US$200	–	41.78%	Investment holding
B & B Natural Products (BVI) Limited	British Virgin Islands	Ordinary share US$1	–	41.78%	Investment holding
Rapid Progress Profits Limited	British Virgin Islands	Ordinary shares US$8	–	31.34%	Investment holding
Hsing Long Trading Co. Pte. Ltd.	Singapore	Ordinary shares SGD100,000	–	39.17%	Distribution of edible oil supplementary food
CNPC Huayou Cu Energy# Investment Co., Limited	PRC	Registered capital RMB100,000,000	–	39%	Holding profit sharing right on oil field

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

† For identification only

43. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

At 30 June 2008, 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
常德華油燃氣有限公司# (Changde Huayou Gas Co., Limited)	Sino-foreign equity joint venture	PRC	Registered	26.92%	Development and management of natural gas pipelines and distribution facilities in PRC
湖南華油天然氣輸配有限責任公司# (Hunan Huayou Natural Gas Transportation and Distribution Company Limited)	Sino-foreign equity joint venture	PRC	Registered	18.38%	Construction and development of natural gas pipelines and related consultation services
北京中文發數字科技有限公司# (China Culture Development Digital Technology Co., Limited†)	Sino-foreign equity joint venture	PRC	Registered	49%	Research and development of software and information technology products; system integrations; technology concultancy and other services
北京天合文化有限公司# (Beijing Tian He Culture Co., Limited†)	Limited liability company	PRC	Registered	24.50%	Carryout copyright transactions of Karaoke programmes between IP owners and Karaoke venues and also provide technical support and operational services for VAS at Karaoke venues

Notes to the Consolidated Financial Statements

For the year ended 30 June 2008

43. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES – continued

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
北京中文發影音文化傳播有限公司# (China Culture Development Video Music Culture Broadcasting Co., Limited†)	Limited liability company	PRC	Registered	49%	Consultation and organizing of karaoke-related services
湖南天合世嘉文化有限公司#	Limited liability company	PRC	Registered	18.50%	Carryout copyright transactions of Karaoke programmes between IP owners and Karaoke venues and also provide technical support and operational services for VAS at Karaoke venues
河南天合文化有限公司#	Other limited liability company	PRC	Registered	12.50%	Carryout copyright transactions of Karaoke programmes between IP owners and Karaoke venues and also provide technical support and operational services for VAS at Karaoke venues
四川天合文化有限公司#	Limited liability company	PRC	Registered	12.27%	Carryout copyright transactions of Karaoke programmes between IP owners and Karaoke venues and also provide technical support and operational services for VAS at Karaoke venues

43. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES – continued

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
雲南天合世紀文化傳播有限公司#	Other limited liability company	PRC	Registered	13.72%	Carryout copyright transactions of Karaoke programmes between IP owners and Karaoke venues and also provide technical support and operational services for VAS at Karaoke venues
遼寧天合文化有限公司#	Limited liability company	PRC	Registered	13.72%	Carryout copyright transactions of Karaoke programmes between IP owners and Karaoke venues and also provide technical support and operational services for VAS at Karaoke venues

† For identification only

The statutory financial year end date of these jointly controlled entities is 31 December

43. 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:

	2008 HK$'000	2007 HK$'000
Current assets	**92,559**	55,654
Non-current assets	**255,491**	209,468
Current liabilities	**31,540**	17,961
Non-current liabilities	**86,406**	86,748
Minority interests	**–**	750

	Date of acquisition# to 30 June 2008 HK$'000	Date of acquisition* to 30 June 2007 HK$'000
Revenue	**70,726**	14,743
Expenses	**(75,838)**	(19,057)
Minority interests	**–**	(3)
Loss for the period	**(5,112)**	(4,317)

\# The date of acquisition of CCDDT was 11 April 2008.

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

44. LEGAL LITIGATION

Legal action has been taken to recover the escrow money of approximately HK$4,675,000 against a solicitor in Singapore. Full provision has been made for prudence by considering that the outcome of the legal action is uncertain.

Financial Summary

RESULTS

	For the year ended 30 June				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**144,085**	91,461	81,608	189,131	192,971
Cost of sales	**(94,367)**	(64,471)	(55,284)	(142,875)	(141,394)
Gross profit	**49,718**	26,990	26,324	46,256	51,577
Other revenue	**5,612**	5,911	34,282	5,112	167
Selling and distribution costs	**(16,255)**	(4,993)	(3,718)	(12,747)	(8,865)
Administrative expenses	**(108,277)**	(136,045)	(111,252)	(18,884)	(11,050)
(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)	–
Loss on deemed disposal of a subsidiary held by a jointly controlled entity	**(7)**	–	–	–	–
Finance costs	**(41,874)**	(24,537)	(3,005)	(1,849)	(691)
Share of results of associates	**(40)**	–	18,830	17,653	–
(Loss) profit before income tax	**(111,123)**	(102,039)	(51,645)	39,697	31,138
Income tax expenses	**(1,891)**	(1,442)	(6,717)	(9,086)	(1,861)
(Loss) profit for the year	**(113,014)**	(103,481)	(58,362)	30,611	29,277

Financial Summary

ASSETS AND LIABILITIES

	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**3,087,897**	852,021	519,414	248,351	187,222
Total liabilities	**(819,586)**	(413,816)	(65,563)	(77,580)	(44,932)
Net assets	**2,268,311**	438,205	453,851	170,771	142,290
Equity attributable to equity holders of the Company	**2,247,625**	425,697	397,958	160,642	137,466
Minority interests	**20,686**	12,508	55,893	10,129	4,824
Total equity	**2,268,311**	438,205	453,851	170,771	142,290

Note:

1. The results of the Group for the years ended 30 June 2007 and 2008 are those set out on page 46 of the financial statements.