



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 RESULTS 2008

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board 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 announcement, 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 announcement.

This announcement, 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 announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

The Board of Directors (the “Board”) of China Vanguard Group Limited (the “Company”) is pleased to present the audited consolidated results of the Company and its subsidiaries (together the “Group”) for the year ended 30 June 2008, together with comparative figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2008

	Notes	2008 HK\$'000	2007 HK\$'000
Continuing operations			
Revenue	4	144,085	88,246
Cost of sales		<u>(94,367)</u>	<u>(63,410)</u>
Gross profit		49,718	24,836
Other revenue	4	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	5	(41,874)	(24,526)
Share of results of associates		<u>(40)</u>	<u>–</u>
Loss before income tax	6	(111,123)	(102,342)
Income tax expenses	7	<u>(1,891)</u>	<u>(1,411)</u>
Loss for the year from continuing operations		<u>(113,014)</u>	<u>(103,753)</u>
Discontinued operations			
Profit for the year from discontinued operations		<u>–</u>	<u>272</u>
Loss for the year		<u>(113,014)</u>	<u>(103,481)</u>
Attributable to:			
Equity holders of the Company		(116,405)	(72,521)
Minority interests		<u>3,391</u>	<u>(30,960)</u>
		<u>(113,014)</u>	<u>(103,481)</u>
Loss per share	9		
From continuing and discontinued operations			
Basic		(HK8.03 cents)	(HK7.75 cents)
From continuing operations			
Basic		<u>(HK8.03 cents)</u>	<u>(HK7.78 cents)</u>

CONSOLIDATED BALANCE SHEET

At 30 June 2008

	<i>Notes</i>	2008 HK\$'000	2007 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	<i>10</i>	276,868	235,697
Goodwill		2,297,186	280,689
Other intangible assets		5,358	2,603
Interest in associates	<i>11</i>	2,127	238
Available-for-sale financial asset		63,780	–
Prepaid lease payments		15,502	12,496
Construction in progress		6,912	14,004
		2,667,733	545,727
Current assets			
Inventories	<i>12</i>	6,912	6,536
Trade and other receivables and prepayments	<i>13</i>	114,487	89,656
Prepaid lease payments – current portion		452	380
Tax recoverable		680	–
Pledged bank deposits		5,033	5,000
Bank balances and cash		292,600	204,722
		420,164	306,294
Current liabilities			
Trade and other payables	<i>14</i>	66,093	57,528
Tax liabilities		539	1,422
Derivative financial instruments	<i>16(b)</i>	100,861	–
Bank and other borrowings – due within one year	<i>15</i>	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	<i>15</i>	114,251	106,105
Convertible bonds	<i>16(a)&(b)</i>	471,097	243,144
		585,348	349,249
Net assets		2,268,311	438,205

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2008

	Attributable to equity holders of the Company								Total	Minority interests	Total
	Share capital	Share premium	Convertible bonds reserve	Employee share-based compensation reserve	Share option reserve	Translation reserve	Special reserve	Retained profits/ (Accumulated loss)			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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	<u>9,361</u>	<u>286,884</u>	<u>10,712</u>	<u>35,572</u>	<u>122,746</u>	<u>8,136</u>	<u>(1)</u>	<u>(47,713)</u>	<u>425,697</u>	<u>12,508</u>	<u>438,205</u>

Attributable to equity holders of the Company

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Convertible bonds reserve <i>HK\$'000</i>	Employee share-based compensation reserve <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Retained profits/ (Accumulated loss) <i>HK\$'000</i>	Total <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>	Total <i>HK\$'000</i>
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	<u>32,353</u>	<u>2,166,728</u>	<u>10,712</u>	<u>35,572</u>	<u>11,282</u>	<u>35,095</u>	<u>(1)</u>	<u>(44,116)</u>	<u>2,247,625</u>	<u>20,686</u>	<u>2,268,311</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

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.

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.

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.

3. SEGMENT INFORMATION

a. Business segments

	Year ended 30 June 2008										
	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
Revenue	<u>2,707</u>	<u>35,715</u>	<u>39,562</u>	<u>-</u>	<u>65,793</u>	<u>226</u>	<u>82</u>	<u>144,085</u>	<u>-</u>	<u>-</u>	<u>144,085</u>
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)

	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	<u>2,279</u>	<u>28,283</u>	<u>42,912</u>	<u>-</u>	<u>14,743</u>	<u>29</u>	<u>88,246</u>	<u>929</u>	<u>2,286</u>	<u>91,461</u>
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							<u>(103,753)</u>	<u>379</u>	<u>(107)</u>	<u>(103,481)</u>

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								<u>2,603,394</u>
Total assets								<u><u>3,087,897</u></u>
LIABILITIES								
Segment liabilities	699	31,390	457	1,672	117,157	790	585	152,750
Unallocated liabilities								<u>666,836</u>
Total liabilities								<u><u>819,586</u></u>

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

Year ended 30 June 2007

	Distribution of natural supplementary products <i>HK\$'000</i>	Provision of lottery-related hardware and software systems <i>HK\$'000</i>	Distribution of edible oil <i>HK\$'000</i>	Profit sharing on oil field <i>HK\$'000</i>	Gas related <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
ASSETS							
Segment assets	66,084	75,538	1,442	30,419	265,122	3,959	442,564
Unallocated assets							<u>409,457</u>
Total assets							<u><u>852,021</u></u>
LIABILITIES							
Segment liabilities	882	39,258	531	1,233	104,709	530	147,143
Unallocated liabilities							<u>266,673</u>
Total liabilities							<u><u>413,816</u></u>

OTHER INFORMATION

	Continuing operations							Discontinued operations		
	Distribution of natural supplementary products <i>HK\$'000</i>	Provision of lottery-related hardware and software systems <i>HK\$'000</i>	Distribution of edible oil <i>HK\$'000</i>	Profit sharing on oil field <i>HK\$'000</i>	Gas related <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>	Manufacturing and distribution of honey mead <i>HK\$'000</i>	Operation of restaurant <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Depreciation of property, plant and equipment	<u>688</u>	<u>5,188</u>	<u>-</u>	<u>-</u>	<u>4,194</u>	<u>246</u>	<u>10,316</u>	<u>-</u>	<u>354</u>	<u>10,670</u>
Amortization of prepaid lease payments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>152</u>	<u>-</u>	<u>152</u>	<u>-</u>	<u>-</u>	<u>152</u>
Capital expenditure	<u>839</u>	<u>41,474</u>	<u>-</u>	<u>-</u>	<u>1,650</u>	<u>2,093</u>	<u>46,056</u>	<u>-</u>	<u>564</u>	<u>46,620</u>
Other non-cash expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>103,203</u>	<u>103,203</u>	<u>-</u>	<u>-</u>	<u>103,203</u>
Impairment of goodwill	<u>145</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>145</u>	<u>-</u>	<u>-</u>	<u>145</u>
Amortization of other intangible assets	<u>-</u>	<u>1,848</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,848</u>	<u>-</u>	<u>-</u>	<u>1,848</u>

b. Geographical market segments

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

	2008	2007	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	<u>–</u>	<u>680</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>680</u>
Total	<u>144,085</u>	<u>91,948</u>	<u>–</u>	<u>(487)</u>	<u>144,085</u>	<u>91,461</u>
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					<u>(7)</u>	<u>–</u>
Loss before income tax					(111,123)	(102,039)
Income tax expenses					<u>(1,891)</u>	<u>(1,442)</u>
Loss for the year					<u>(113,014)</u>	<u>(103,481)</u>

4. 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 HK\$'000	2007 <i>HK\$'000</i>
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

5. 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	–	–
	<u>41,874</u>	<u>24,526</u>	<u>–</u>	<u>11</u>

6. 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):				
Wages and salaries	17,648	13,428	–	664
Retirement benefits scheme contributions	297	217	–	–
Total staff costs	<u>17,945</u>	<u>13,645</u>	<u>–</u>	<u>664</u>
Auditors' remuneration	1,468	968	–	–
Amortization of other intangible assets	1,943	1,848	–	–
Depreciation of property, plant and equipment (<i>Note 1</i>)	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 derivative financial instrument (<i>Note 2</i>)	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	–	–	–
	<u>7</u>	<u>–</u>	<u>–</u>	<u>–</u>

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 6 for each of these types.

Note 2: Arising from convertible bonds, please refer to note 16.

7. 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	<u>4,259</u>	<u>1,411</u>	<u>-</u>	<u>31</u>	<u>4,259</u>	<u>1,442</u>
	<u>4,259</u>	<u>1,411</u>	<u>-</u>	<u>31</u>	<u>4,259</u>	<u>1,442</u>
Over-provisions in prior years						
Hong Kong Profits Tax	-	-	-	-	-	-
Other jurisdictions	<u>(2,368)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,368)</u>	<u>-</u>
	<u>(2,368)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,368)</u>	<u>-</u>
Income tax expenses charged for the year	<u><u>1,891</u></u>	<u><u>1,411</u></u>	<u><u>-</u></u>	<u><u>31</u></u>	<u><u>1,891</u></u>	<u><u>1,442</u></u>

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 entities of the Company from 1 January 2008.

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.

8. 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).

9. 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	<u>(116,405)</u>	<u>(72,521)</u>
Number of shares		
	'000	'000
Weighted average number of ordinary shares for the purpose of basic loss per share	<u>1,449,641</u>	<u>936,079</u>

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	<u>—</u>	<u>272</u>
Loss for the purpose of basic loss per share from continuing operations	<u>(116,405)</u>	<u>(72,793)</u>

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.

10. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Gas distribution network HK\$'000	Gas storage equipment HK\$'000	Furniture, fixtures and equipment HK\$'000	Plant and machinery HK\$'000	Leasehold improvement HK\$'000	Motor vehicles HK\$'000	Computer equipment HK\$'000	Total HK\$'000
COST									
At 1 July 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)
Eliminated 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 jointly 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	<u>20,870</u>	<u>177,714</u>	<u>9,451</u>	<u>23,466</u>	<u>34,529</u>	<u>1,335</u>	<u>6,977</u>	<u>2,526</u>	<u>276,868</u>
At 30 June 2007	<u>18,131</u>	<u>154,042</u>	<u>9,761</u>	<u>6,550</u>	<u>38,684</u>	<u>556</u>	<u>4,983</u>	<u>2,990</u>	<u>235,697</u>

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).

11. 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	<u>2,127</u>	<u>238</u>

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	<u>(40)</u>	<u>—</u>

12. INVENTORIES

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

All inventories are stated at cost.

13. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

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

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	<u>1,389</u>	<u>338</u>
	<u><u>16,047</u></u>	<u><u>10,861</u></u>

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.

14. TRADE AND OTHER PAYABLES

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

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	<u>3,742</u>	<u>867</u>
At 30 June	<u><u>6,823</u></u>	<u><u>10,536</u></u>

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

15. BANK AND OTHER BORROWINGS

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

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	<u>10,493</u>	<u>14,767</u>
	180,996	111,722
Less: Amount due within one year shown under current liabilities	<u>(66,745)</u>	<u>(5,617)</u>
Amount due after one year	<u><u>114,251</u></u>	<u><u>106,105</u></u>

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.

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	<u>97,750</u>
At 30 June 2007	<u>92,365</u>

16. 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.

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 HK\$'000	2007 <i>HK\$'000</i>
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 <i>(Note 2)</i>	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.

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 <i>HK\$'000</i>	Liability component <i>HK\$'000</i>
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 <i>(Note 1)</i>	196,773 <i>(Note 2)</i>

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.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

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.

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.

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	Gross Profit Ratio	Gross Profit	Gross Profit Ratio
	HK\$'000	%	HK\$'000	%
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	<u>49,718</u>	<u>34.5</u>	<u>24,836</u>	<u>28.1</u>

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.

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.

DEVELOPMENT

Summary of major achievements of the year:

- Acquired Grand Promise International Limited ("Grand Promise") for US\$200 million on 11 April 2008 giving the Company an effective 49% interested in Beijing China Culture Development Digital Technology Ltd., ("CCDDT") (the company with the exclusive rights granted by the MOC Market Development Centre to establish and operate the nationwide karaoke content management service system ("Karaoke CMS"))
- Commenced implementing the Karaoke CMS in 28 provinces and thus surpassed one of the stated targets in the circular ("Circular") dated 14 March 2008 regarding the acquisition of Grand Promise, which is to be implementing the Karaoke CMS in 25 provinces by the end of calendar year 2008
- Begun formal collection of copyright fees from karaoke venues in Yunnan, Henan and Sichuan on behalf of CAVCA and IP Owners starting in July 2008 and has arranged to collect copyright fees from these karaoke venues amounting to over HK\$7.8 million.

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 owns 50% of Beijing Tian He Culture Co. Ltd. (“Tian He”) (together “CCDDT Group”). 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.

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.

As at the date of this announcement, CCDDT has commenced implementing the Karaoke CMS in 28 provinces and has surpassed one of the stated targets in the Circular, which 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 announcement, Tian He has arranged to collect copyright fees from these karaoke venues amounting to over HK\$7.8 million.

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.

Oil and gas – related operations

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 months¹.

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. 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.

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.

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.

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.

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.

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.

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.

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.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SHARES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

COMPETING INTERESTS

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

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.

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.

By order of the Board
China Vanguard Group Limited
Chan Ting
Executive Director

Hong Kong, 25 September 2008

** For identification purposes only*

As at the date of this announcement, the executive Directors are Madam Cheung Kwai Lan, Mr. Chan Tung Mei, Mr. Chan Ting, Ms. Chan Siu Sarah and Mr. Lau Hin Kun; and the independent non-executive Directors are Mr. Tian He Nian, Mr. Zhang Xiu Fu, Mr. Zhao Zhi Ming and Mr. To Yan Ming, Edmond.

This announcement will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for a minimum period of 7 days from the day of its posting and on the website of the Company at www.cvg.com.hk.