THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Vanguard Group Limited (the "Company"), you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This circular does not constitute an offer of, nor is it calculated to invite offers for, shares in or other securities of China Vanguard Group Limited.

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)

MAJOR TRANSACTION:

INVESTMENT IN JOINT VENTURES FOR PARTICIPATION IN THE NATURAL GAS BUSINESS

Financial Adviser to China Vanguard Group Ltd.

VINCO 域高

Grand Vinco Capital Limited

A notice convening an extraordinary general meeting of the Company to be held at 30th Floor, Sunshine Plaza, 353 Lockhart Road, Hong Kong at 2:00 p.m. on 7 November 2006 is set out on pages 175 to 176 of this circular. A form of proxy for use at the extraordinary general meeting is enclosed with this circular. Such form of proxy is also published on the website of the Stock Exchange at www.hkex.com.hk. Whether or not you are able to attend the extraordinary general meeting, you are requested to complete the accompanying form of proxy, in accordance with the instructions printed thereon and deposit to the head office and principle place of business in Hong Kong of China Vanguard Group Limited at 30th Floor, Sunshine Plaza, 353 Lockhart Road, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the extraordinary general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the extraordinary general meeting or any adjournment thereof should you so wish.

* *for identification purpose only*

19 October 2006

CHARACTERISTICS OF GEM

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. 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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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DEFINITIONS

In this circular, the following expressions have the following meanings unless the context requires otherwise:

"Announcement"	the announcement of the Company dated 2 August 2006 in relation to, among other matters, the Changde Joint Venture and Hunan Joint Venture
"Aptus"	Aptus Holdings Limited a company incorporated in the Cayman Islands, whose shares are listed on GEM and is a non-wholly owned subsidiary of China Vanguard
"Aptus Directors"	directors (including the independent non-executive directors) of Aptus
"Aptus Group"	Aptus and its subsidiaries
"Associates"	has the meaning ascribed to it under the GEM Listing Rules
"Beijing Xin Hua Lian Gas"	北京新華聯燃氣投資有限公司 (Beijing Xin Hua Lian Gas Investment Co. Ltd.*), a PRC company which holds 35% of Hunan Joint Venture
"Board"	the board of Directors
"Business Day"	a day on which banks are open for business in Hong Kong throughout their normal business hours (excluding Saturday and Sunday)
"Changde Agreement"	the conditional capital injection agreement dated 25 July 2006 entered into among Huayou, Changde State-owned Asset Operation Management Company and Aptus relating to, among other matters, the increase in the registered capital of Changde Joint Venture
"Changde Capital Contribution"	an aggregate amount of RMB131,707,900 to be paid by Aptus to Changde Joint Venture for the purposes of contributing as to RMB57,880,000 for its increase in registered capital, and as to RMB73,827,900 towards its capital reserve

"Changde Joint Venture"	常德華油燃氣有限公司 (Changde Huayou Gas Co. Ltd*), a limited company established in the PRC on 11 October 1999, the registered capital of which is currently owned as to 98.71% by Huayou and 1.29% by Changde State-owned Asset Operation Management Company
"Changde State-owned Asset Operation Management Company*"	常德市國有資產經營管理公司, a state-owned enterprise, which holds 1.29% of Changde Joint Venture before the completion of the Changde Agreement
"CNPC"	China National Petroleum Corporation, a state-owned enterprise
"Company" or "China Vanguard"	China Vanguard Group Limited (眾彩科技股份有限公司), an exempted company incorporated in the Cayman Islands with limited liability and whose Shares are listed on GEM
"connected person(s)"	has the meaning ascribed to it under the GEM Listing Rules
"Directors"	directors (including the independent non-executive directors) of the Company
"EGM"	the extraordinary general meeting of the Company to be held at 30th Floor, Sunshine Plaza, 353 Lockhart Road, Hong Kong at 2:00 p.m. on 7 November 2006 to consider and, if thought fit, to approve the Changde Joint Venture and Hunan Joint Venture
"Enlarged Group"	the Group as enlarged by the Investments
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Huayou"	中國華油集團公司 (China Huayou Group Corporation*), a wholly-owned subsidiary of China National Petroleum Corporation and a state-owned enterprise

"Hunan Agreement"	the conditional capital injection agreement dated 25 July 2006 entered into among Huayou, Beijing Xin Hua Lian Gas and Aptus relating to, among other matters, the increase in the registered capital of Hunan Joint Venture
"Hunan Capital Contribution"	an amount of RMB79,599,000 to be paid by Aptus to Hunan Joint Venture as contribution towards its capital increase
"Hunan Joint Venture"	湖南華油天然氣輸配有限責任公司 (Hunan Huayou Natural Gas Transportation & Distribution Company Limited*), a limited company established in the PRC on 22 April 2005, the registered capital of which is currently owned as to 65% by Huayou and 35% by Beijing Xin Hua Lian Gas
"Independent Third Party(ies)"	third party(ies) independent of, and not connected with Aptus and China Vanguard, their subsidiaries and their respective connected persons (as defined under the GEM Listing Rules).
"Investments"	the investments in the aggregate amount of RMB211,306,900 in Changde Joint Venture and Hunan Joint Venture, by Aptus under the Changde Agreement and the Hunan Agreement, respectively
"Latest Practicable Date"	17 October 2006, being the latest practicable date prior to the printing of this document for the purpose of ascertaining certain information for inclusion in this document
"PRC"	the People's Republic of China
"Shareholders"	shareholders of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"USD"	denoted the lawful currency of the United States of America
"m^3"	cubic meter, the unit of volume in the International System of Units
"%"	per cent

* *for identification purpose only*

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)

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

Non-executive Director:
Mr. Shaw Kyle Arnold Junior

Independent non-executive Directors:
Mr. Tian He Nian
Mr. Zhao Zhi Ming
Mr. To Yan Ming Edmond

Registered office:
Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies
Cayman Islands

Head office and principal place of business in Hong Kong:
30th Floor
Sunshine Plaza
353 Lockhart Road
Hong Kong

19 October 2006

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION:

INVESTMENT IN JOINT VENTURES FOR PARTICIPATION IN THE NATURAL GAS BUSINESS

INTRODUCTION

In the Announcement, the China Vanguard Board announced that on 25 July 2006, Aptus, a subsidiary of the Company had entered into the capital injection agreements pursuant to which Aptus has conditionally agreed to make capital contributions to Changde Joint Venture and Hunan Joint Venture for an amount of approximately RMB131,707,900 (approximately HK$127,872,000) and RMB79,599,000 (approximately HK$77,281,000) respectively. Upon completion of the Changde Agreement and the Hunan Agreement, Aptus will own a 48.33% equity interest in Changde Joint Venture and a 33.00% equity interest in Hunan Joint Venture.

* *for identification purpose only*

The investments under the Changde Agreement and the Hunan Agreement constitute a major transaction for the Company under Rules 19.06(3) of the GEM Listing Rules. Completion of Changde Joint Venture and the Hunan Joint Venture are therefore subject to the approval by the Shareholders at the EGM

The purpose of this circular is to provide you with, among other things, further details of the Changde Agreement and the Hunan Agreement and the notice of the EGM.

CHANGDE AGREEMENT

Date: 25 July 2006

Parties:

(i) Huayou, an Independent Third Party. The business of Huayou is well diversified and covers the production and marketing of oil and gas products, development and exploration of natural gas, production and distribution of high grade lubricating oil, development of chemical agents used in oil fields and refining industry, and production of advanced building materials, etc;

(ii) Changde State-owned Asset Operation Management Company, an Independent Third Party principally engaging in the business of management, operation and supervision of state-owned assets; and

(iii) Aptus.

To the best of the knowledge, information and belief of the Directors and Aptus Directors, having made all reasonable enquiries, Huayou and Changde State-owned Asset Operation Management Company and their respective ultimate beneficial owner(s) (if applicable) are independent of and not connected with the Group, its subsidiaries and their respective connected persons (as defined under the GEM Listing Rules).

Conditions precedent

The Changde Agreement will become effective upon the fulfillment of the following conditions (the "Changde Conditions Precedent"):

(i) obtaining the approval by the shareholders of Aptus for the Changde Agreement and the transactions contemplated thereunder; and

(ii) obtaining the approval by the Ministry of Commerce in the PRC for the Changde Agreement and the transactions contemplated thereunder.

If any of the above Changde Conditions Precedent cannot be fulfilled, the Changde Agreement shall lapse and the parties shall be released from all their rights and obligations under the Changde Agreement.

As at the Latest Practicable Date, none of the Changde Conditions Precedent has been fulfilled. The Changde Agreement will be sent to the respective PRC government authorities, which include (1) Development & Reform Commission of Hunan Province; (2) Foreign Trade & Economic Development (branch offices of The Ministry of Commerce in provinces and cities); (3) The State-Owned Assets Supervision and Administration Commission; and (4) State Administration of Industry & Commerce of Changde City, to obtain the necessary approvals following signing by the respective parties.

Financial Information of Changde Joint Venture

Changde Joint Venture was established in the PRC on 11 October 1999 as a PRC limited liability company. It is principally engaged in the business of gas pipeline design, the supply, development and management of natural gas distribution facilities in the PRC. The registered capital and capital reserve (資本公積) of Changde Joint Venture are RMB61,880,000 (approximately HK$60,078,000) and RMB25,980,000 (approximately HK$25,223,000), respectively, which has been fully paid up. The following audited figures of the Changde Joint Venture are extracted from the Accountants' Report on the Changde Joint Venture in Appendix II to this circular. For the year ended 31 December 2004, the audited net loss before and after taxation were approximately RMB6,708,000 (approximately HK$6,513,000) and approximately RMB7,050,000 (approximately HK$6,845,000), respectively. For the year ended 31 December 2005, the audited net profit before and after taxation were approximately RMB1,215,000 (approximately HK$1,180,000) and approximately RMB814,000 (approximately HK$790,000), respectively. As at 31 December 2005, the audited net asset value of Changde Joint Venture was approximately RMB83,118,000 (approximately HK$80,697,000). As at 31 December 2005, the major assets of Changde Joint Venture included gas pipelines, land use rights, buildings and other construction in progress which are all related to natural gas business and located in Changde City in the PRC. As at 31 December 2005, the audited total asset value of Changde Joint Venture was approximately RMB159,812,000 (approximately HK$155,157,000). The audited total asset value and net asset value of Changde Joint Venture as at 30 June 2006 were approximately RMB175,416,000 (approximately HK$170,307,000) and RMB83,373,000 (approximately HK$80,945,000) respectively.

Changde Capital Contribution

As at the Latest Practicable Date, Changde Joint Venture is owned as to 98.71% by Huayou and 1.29% by Changde State-owned Asset Operation Management Company. Pursuant to the Changde Agreement, Aptus will contribute an aggregate of RMB131,707,900 (approximately HK$127,872,000), being RMB57,880,000 (approximately HK$56,194,000) and RMB73,827,900 (approximately HK$71,678,000) to the registered capital and capital reserve of Changde Joint Venture, respectively. Aptus is contemplating to finance such capital contribution by way of issuance of convertible notes. Aptus has signed a non-legally binding letter of intent dated 24 July 2006 with a potential third party investor. Pursuant to the letter, the investor has agreed to finance Aptus in relation to the Changde Joint Venture and Hunan Joint Venture with a maximum amount of USD30 million (approximately HK$234 million).

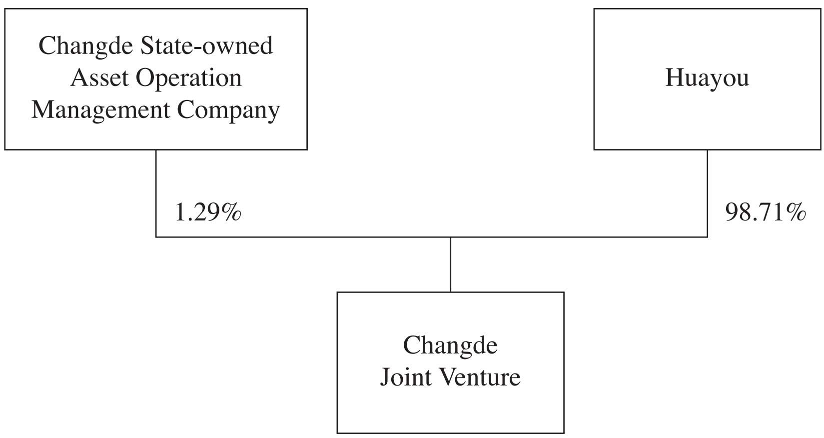
In addition, Aptus is also currently in discussion with several other potential investors with regards to an issuance of convertible notes, brief details of which are set out in the section headed "The Proposed Placing of the Convertible Notes". Currently, Aptus has not signed any legally-binding agreements with any potential investors.

To the best of knowledge of Directors and Aptus Directors, the potential investors are independent of and not connected with the Company, its subsidiaries (including Aptus) and their respective connected persons (as defined under the GEM Listing Rules). They are also independent of and not connected with Huayou, Changde State-owned Asset Operation Management Company, their respective ultimate beneficial owners and their respective connected persons (as defined under the GEM Listing Rules). During the past 12 months preceding the Latest Practicable Date, Aptus obtained loans of approximately HK$31 million from third parties, who are independent from and not connected with any connected persons (as defined under the GEM Listing Rules) of Aptus or the Company, for general working capital purposes. Other than that, there were no other material financing activities carried out by Aptus or the Company during the past 12 months preceding the Latest Practicable Date. Given the upcoming funding activities to be conducted by Aptus, the Directors and Aptus Directors are of the view that Aptus should have sufficient capital resources to meet the funding obligations under the Investments.

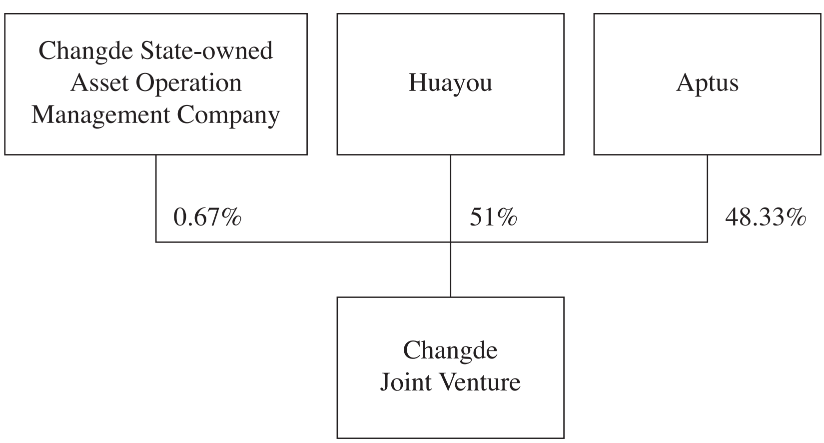
The Changde Capital Contribution, in aggregate, of RMB131,707,900 (approximately HK$127,872,000) will be paid to the specific-use foreign exchange account opened by Aptus in the PRC within 45 days upon signing of the Changde Agreement, which will then be transferred to the designated bank account of the Changde Joint Venture within 7 days upon the issuance of the business license for the Changde Joint Venture. If the approvals of the transactions contemplated under the Changde Agreement by the relevant authorities cannot be obtained or the Changde Joint Venture cannot complete the registration of changes with the Administration for Industry and Commerce due to any reason not attributable to the default on the part of Aptus, all of the Changde Capital Contribution previously paid together with interest incurred thereon will be refunded in full to Aptus. As advised by the PRC legal adviser of Aptus, the prevailing legal mechanism such as contract law and arbitration law can enable the Company to claim a full refund with interest thereon from Changde Joint Venture.

Upon completion of the Changde Capital Contribution, the registered capital of Changde Joint Venture will be increased from RMB61,880,000 (approximately HK$60,078,000) to RMB119,760,000 (approximately HK$116,272,000) and its capital reserve will be increased from RMB25,980,000 (approximately HK$25,223,000) to RMB99,807,900 (approximately HK$96,901,000). Changde Joint Venture will be owned as to 51% by Huayou, 48.33% by Aptus and 0.67% by Changde State-owned Asset Operation Management Company. Set out below is the shareholding structure of Changde Joint Venture immediately before and after completion of the Changde Capital Contribution:

Before completion of the Changde Capital Contribution



After completion of the Changde Capital Contribution



Upon completion of the Changde Capital Contribution, the financial results of Changde Joint Venture will be equity accounted for in the Aptus's financial statements. Changde Joint Venture will become an associated company of the Aptus. The financial statements of the Aptus will be consolidated into the financial statements of the Company given its 54.88% equity interest in the Aptus as at the Latest Practicable Date.

Basis of contribution

Upon completion of the Changde Capital Contribution, the net asset value of the Changde Joint Venture will be enlarged by the contribution of approximately RMB131.7 million from the approximately RMB83.1 million to approximately RMB214.8 million. The amount of contribution of approximately RMB131.7 million represents a premium of approximately 26.9% to the amount of approximately RMB103.8 million, being the 48.33% of the enlarged net asset value of the Changde Joint Venture, which was determined, on an arm's length basis, with reference to (1) valuation of the market comparables; (2) the net asset value of Changde Joint Venture as at 31 December 2005; (3) the equity interest to be owned in the Changde Joint Venture; and (4) the Aptus Directors' assessment of the business growth potential of Changde Joint Venture in the operation of the natural gas business in the PRC (see the section herein headed "Reasons for and benefits of the Investments").

For the purpose of assessing the fairness and reasonableness of the Changde Capital Contribution, the Directors and Aptus Directors have adopted the commonly used price-to-book ratio as valuation methodology with reference to the valuation of the market comparables. They have identified 4 companies listed in the Hong Kong which are engaged in the operation of natural gas related business. The approximate price-to-book ratio of the market comparables ranged from 1.2 to 3.0 times with an average of 2.2 times. Upon completion of the Changde Capital Contribution, Changde Joint Venture's net asset value represented a price-to-book ratio of 1.3 which was within the market range and was lower than the average price-to-earnings ratio of the market comparables of 2.2 times. As a result, the Directors and Aptus Directors consider that the Changde Capital Contribution is fair and reasonable.

Given the reasons mentioned above, the Directors and Aptus Directors believe that premium in relation to the net asset value of Changde Joint Venture is fair and reasonable.

HUNAN AGREEMENT

Date: 25 July 2006

Parties:

(i) Huayou, an Independent Third Party. The business of Huayou is well diversified and covers the production and marketing of oil and gas products, development and exploration of natural gas, production and distribution of high grade lubricating oil, development of chemical agents used in oil fields and refining industry, and production of advanced building materials, etc;

(ii) Beijing Xin Hua Lian Gas, an Independent Third Party principally engaging in the business of development and manufacture of gas facilities and gas related raw materials; sales, design, installation and maintenance of gas pipelines; investment management and consultation services. Beijing Xin Hua Lian Gas is a group company of a PRC private conglomerate; and

(iii) Aptus.

To the best of the knowledge, information and belief of the Directors and Aptus Directors, having made all reasonable enquiries, Huayou and Beijing Xin Hua Lian Gas and their respective ultimate beneficial owner(s) (if applicable) are third parties independent of and not connected with the Company, its subsidiaries (including Aptus) and their respective connected persons (as defined under the GEM Listing Rules).

Conditions precedent

The Hunan Agreement will become effective upon the fulfillment of the following conditions (the "Hunan Conditions Precedent"):

(i) obtaining the approval by the Shareholders for the Hunan Agreement and the transactions contemplated thereunder; and

(ii) obtaining the approval by the Ministry of Commerce in the PRC of the Hunan Agreement and the transactions contemplated thereunder.

If any of the above Hunan Conditions Precedent cannot be fulfilled, the Hunan Agreement shall lapse and the parties shall be released from all their rights and obligations under the Hunan Agreement.

As at the Latest Practicable Date, none of the Hunan Conditions Precedent have been fulfilled. The Hunan Agreement will be sent to the respective PRC government authorities, which include (1) Development & Reform Commission of Hunan Province; (2) Foreign Trade & Economic Development (branch offices of The Ministry of Commerce in provinces and cities); (3) The State-Owned Assets Supervision and Administration Commission; and (4) State Administration of Industry & Commerce of Changde City, to obtain the necessary approvals following signing by the respective parties.

Financial information of Hunan Joint Venture

Hunan Joint Venture was established in the PRC on 22 April 2005 as a PRC limited liability company. It is principally engaged in the construction and development of natural gas pipeline and related consultation services in the PRC. The registered capital of Hunan Joint Venture is RMB100,000,000 (approximately HK$97,087,000) which has been fully paid up. Hunan Joint Venture did not generate any revenue for the period between its date of incorporation and 31 December 2005. It is mainly engaged in the construction of a gas pipeline extending from Changsha City to Changde City, passing through a total of two cities and one county in the Hunan Provinces. Such pipeline is expected to commence operations by end of 2006 and all the operating expenses during that period were capitalised. The following figures of the Hunan Joint Venture are extracted from the Accountants' Report on the Hunan Joint Venture in Appendix III to this circular. As at 31 December 2005, the audited net asset value of Hunan Joint Venture was RMB99,931,000 (approximately HK$97,020,000). The major assets of Hunan Joint Venture mainly include the capitalized expenditure on the construction of the pipelines owned by Hunan Joint Venture. The audited total asset value of Hunan Joint Venture as at 31 December 2005 was approximately RMB205,280,000 (approximately HK$199,301,000). The total asset value of Hunan Joint Venture as at 30 June 2006 was approximately RMB346,557,000 (approximately HK$336,463,000).

Hunan Capital Contribution

As at the Latest Practicable Date, Hunan Joint Venture is owned as to 65% by Huayou and 35% by Beijing Xin Hua Lian Gas. Pursuant to the Hunan Agreement, Aptus will contribute approximately RMB79,599,000 (approximately HK$77,281,000) being RMB49,254,000 (approximately HK$47,819,000) to the registered capital of Hunan Joint Venture and RMB30,345,000 (approximately HK$29,461,000) will be contributed to its capital reserve. Aptus is contemplating to finance such capital contribution by way of issuance of convertible notes. Aptus has signed a non-legally binding letter of intent dated 24 July 2006 with a potential third party investor. Pursuant to the letter, the investor has agreed to finance Aptus in relation to the Changde Joint Venture and Hunan Joint Venture with a maximum amount of USD30 million (approximately HK$234 million).

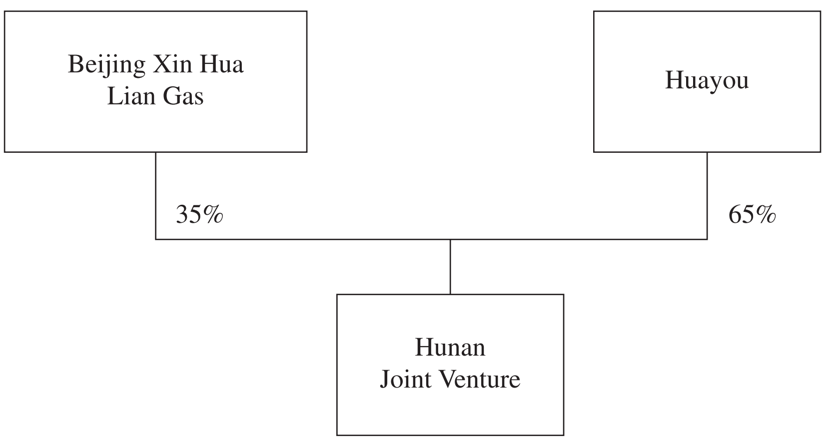
In addition, Aptus is also currently in discussion with several other potential investors with regards to an issuance of convertible notes, brief details of which are set out in the section headed "The Proposed Placing of the Convertible Notes". Currently, Aptus has not signed any legally-binding agreements with any potential investors.

To the best of knowledge of Directors and Aptus Directors, the potential investors are independent of and not connected with the Company, its subsidiaries and their respective connected persons (as defined under the GEM Listing Rules). They are also independent of and not connected with Huayou, Beijing Xin Hua Lian Gas, their respective ultimate beneficial owners and their respective connected persons (as defined under the GEM Listing Rules). Given the upcoming funding activities to be conducted by Aptus, the Directors and Aptus Directors are of the view that Aptus should have sufficient capital resources to meet the funding obligations under the defined terms.

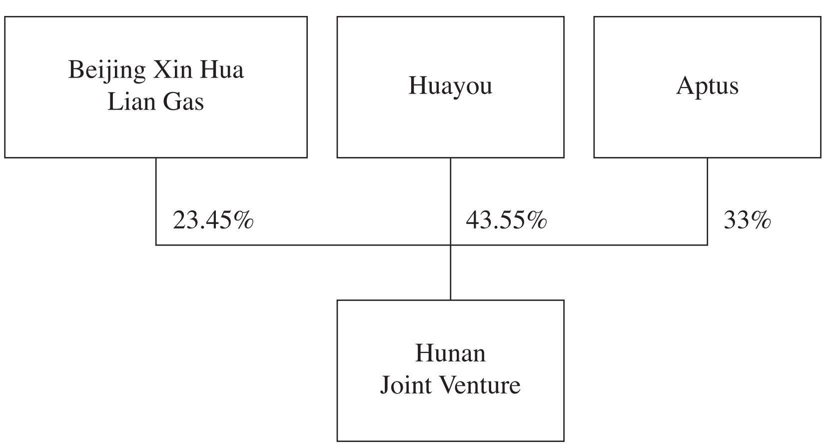
The Hunan Capital Contribution, in aggregate, of RMB79,599,000 (approximately HK$77,281,000) will be paid to the specific-use foreign exchange account opened by Aptus in the PRC within 45 days upon signing of the Hunan Agreement, which will then be transferred to the designated bank account of the Hunan Joint Venture within 7 days from the issuance of the business licence for the Hunan Joint Venture. If the approval of the transactions contemplated under the Hunan Agreement by the relevant approval authorities cannot be obtained or the Hunan Joint Venture cannot complete the registration of changes with the Administration for Industry and Commerce due to any reason not attributable to the default on the part of Aptus, all of the Hunan Capital Contribution previously paid together with interest accrued thereon will be refunded in full to Aptus. As advised by the PRC legal adviser, the prevailing PRC legal mechanism such as contract law and arbitration law can enable Aptus to claim a full refund with interest thereon from the Hunan Joint Venture.

Upon completion of the Hunan Capital Contribution, the registered capital of Hunan Joint Venture will be increased from RMB100,000,000 (approximately HK$97,087,000) to approximately RMB149,254,000 (approximately HK$144,907,000) and capital reserve of approximately RMB30,345,000 (approximately HK$29,461,000) will be recorded. Hunan Joint Venture will be owned as to 43.55% by Huayou, 33.00% by Aptus and 23.45% by Beijing Xin Hua Lian Gas. Set out below is the shareholding structure of Hunan Joint Venture immediately before and after completion of the Hunan Capital Contribution:

Before completion of the Hunan Capital Contribution



After completion of the Hunan Capital Contribution



Upon completion of the Hunan Capital Contribution, the financial results of Hunan Joint Venture will be equity accounted for in the Aptus Group's financial statements. Hunan Joint Venture will become an associated company of the Aptus Group. The financial statements of the Aptus Group will be consolidated into the financial statements of the Company given its 54.88% equity interest in the Aptus Group as at the Latest Practicable Date.

Basis of contribution

Upon completion of the Hunan Capital Contribution, the net asset value of the Hunan Joint Venture will be enlarged by the contribution of approximately RMB79.6 million from the approximately RMB99.9 million to approximately RMB178.5 million. The contribution of approximately RMB79.6 million represents a premium of approximately 34.5% to the amount of approximately RMB59.2 million being the 33% of the enlarged net asset value of the Hunan Joint Venture, which was determined, on an arm's length basis, with reference to (1) valuation of the market comparables, (2) the net asset value of Hunan Joint Venture as at 31 December 2005, (3) the equity interest to be owned in the Hunan Joint Venture, and (4) the Aptus Directors' assessment of the business growth potential of Hunan Joint Venture in the operation of the natural gas business in the PRC (see under the section headed "Reasons for and benefits of the Investments" below).

For the purpose of assessing the fairness and reasonableness of the Hunan Capital Contribution, the Directors and Aptus Directors have adopted the commonly used price-to-book ratio as valuation methodology with reference to the valuation of the market comparables. They have identified 4 companies listed in the Hong Kong which are engaged in the operation of natural gas related business. The approximate price-to-book ratio of the market comparables ranged from 1.2 to 3.0 times with an average of 2.2 times. Upon completion of the Hunan Contribution, Hunan Joint Venture's net asset value represented a price-to-book ratio of 1.3 which was within the market range and was lower than the average price-to-earnings ratio of the market comparables of 2.2 times. As a result, the Directors consider the Hunan Capital Contribution is fair and reasonable.

Given the reasons mentioned above, the Directors believe that premium in relation to the net asset value of Hunan Joint Venture is fair and reasonable.

BACKGROUND OF CHANGDE JOINT VENTURE

Changde Joint Venture is principally engaged in the business of gas pipeline design, the supply, development and management of natural gas pipelines and distribution facilities in the PRC. It constructs and operates the last mile pipeline distribution network to residential, commercial and industrial customers in Changde. Since its commencement of business, it had been supplying end users in Changde City with reconstituted liquefied natural gas which has to be refilled by gas refueling station trailer. For the last two years ended 31 December 2005 and six months ended 30 June 2006, number of customers have been increased by 5038, 5100 and 4160 respectively. In addition, the gas supplied by Changde Joint Venture was 2.71 million cubic meters, 6.57 million cubic meters and 3.85 million cubic meters respectively for the last two years ended 31 December 2005 and six month ended 30 June 2006. When the Changsha City to Changde City main gas pipeline comes onstream which is expected to commence operation by end of 2006 (as it is responsible by the Hunan Joint Venture, please refer to the section headed "Hunan Agreement for more details), natural gas from this pipeline will replace the reconstituted liquefied natural gas as a source of gas. It is expected the demand for the natural gas will significantly increase. Changde Joint Venture is managing 2 natural gas projects in Changde City in the PRC (one of which is in Lin Li County (臨澧縣) inside Changde City) to distribute natural gas to end users including residential, commercial and industrial units within the region of Changde via pipelines. It is the sole natural gas supplier in Changde City and has been granted by Office of People's Government of Changde Municipality an exclusive right to supply piped natural gas to the Administrative zone of Changde City for an initial term of 30 years at 2003.

Changde Joint Venture generates its income from the sale of natural gas and the installation services rendered. Therefore, its revenue mainly comprises of gas sales and installation fee. The gas sale is charged based on meter reading. The installation fee is charged on one-off basis for the connection of pipeline network service for the end users. Further to this, the Changde Joint Venture will place orders to the group company of CNPC for the natural gas, which will be transported along the Changsha to Changde pipeline. Set out below is the major stream of revenue of Changde Joint Venture:

	For the year ended 31 December			**For the six months ended 30 June**	
	2005	**2004**	**2003**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Gas sales	22,240	12,161	1,667	14,055	11,185
Installation fee	16,285	10,794	2,838	7,742	4,257
	38,525	22,955	4,505	21,797	15,442

Management discussion and analysis

Financial performance

For the six months ended 30 June 2006, Changde Joint Venture recorded an unaudited consolidated turnover of approximately RMB21.8 million representing an increase of approximately 42% as compared to approximately RMB15.4 million for the six months ended 30 June 2005. The increase of turnover was attributed to the increase in sales of gas and connection fee charged to new customers. As the pipeline network in Changde expands, the gas network of the Changde Joint Venture will be increased and therefore the number of customers increased. As the result of the increase in number of customers, gas fee income and installation income increased accordingly.

Changde Joint Venture's operating expenses amounted to approximately RMB4 million (six months ended 30 June 2005: approximately RMB2.7 million), representing an increase of approximately 48%. The operating expenses principally consisted of depreciation of RMB2.8 million, salaries of RMB0.4 million and staff welfare of RMB0.2 million. Increase in operating expenses was due to increase in depreciation charges of approximately RMB1 million for the period ended 30 June 2006 while the depreciation charges was RMB1.8 million for the period ended 30 June 2005.

Changde Joint Venture's administrative expenses amounted to approximately RMB1.8 million (six months ended 30 June 2005: approximately RMB1.7 million), representing a slight increase of approximately 6%. The administrative expenses principally consisted of depreciation of RMB0.5 million, salaries of RMB0.3 million, traveling and accommodation expenses of RMB0.2 million, entertainment expenses of RMB0.1 million, staff welfare of RMB0.1 million and insurance of RMB0.1 million.

Net profit attributable to equity holders for the six months ended 30 June 2006 was approximately RMB255,000 (six months ended 30 June 2005: approximately RMB373,000), representing a decrease of 32%. Gross profit margin was maintained steady at 30% for the six months ended 30 June 2006 and 2005. Slight decrease in net profits was because the extent of increase in cost of operation is larger than that in the turnover of Changde Joint Venture.

Liquidity, financial resources and capital structure

As at 30 June 2006, Changde Joint Venture has total assets of RMB175 million (31 December 2005: RMB160 million), including net cash and bank balances of approximately RMB14 million (31 December 2005: RMB3 million). Except for the project under development of Changde Joint Venture used as security for its short term bank loans, there was no charge on Changde Joint Venture's other assets as at 30 June 2006 and at 31 December 2005.

As at 30 June 2006, Changde Joint Venture had borrowings of RMB77.6 million (31 December 2005: RMB56 million). The gearing ratio, defined as the ratio between total long term borrowings and the equity attributable to equity holders of the Company, was 40.9% (31 December 2005: 45.2%).

Contingent liabilities

Changde Joint Venture did not have any contingent liabilities as at 30 June 2006 (31 December 2005: nil).

Commitments

Changde Joint Venture did not have any significant capital commitment or operating lease commitment as at 30 June 2006 (31 December 2005: nil).

Significant investments and acquisitions

During the six months ended 30 June 2006, Changde Joint Venture did not have any significant investments or acquisitions (six months ended 30 June 2005: nil).

Employees

Changde Joint Venture employed a total of 141 employees as at 30 June 2006. Employees' remuneration is in line with market conditions, working experience, and prevailing industry practice. Changde Joint Venture's remuneration policies and packages were reviewed on a regular basis.

Financial performance

For the year ended 31 December 2005, Changde Joint Venture recorded an unaudited consolidated turnover of approximately RMB38.5 million representing an increase of approximately 67% as compared to approximately RMB23 million for the year ended 31 December 2004. The increase of turnover was attributed to the increase in sales of gas and connection fee charged to new customers. As the pipeline network in Changde expands, the gas network of the Changde Joint Venture will be increased and therefore the number of customers increased. As the result of the increase in number of customers, gas fee income and installation income increased accordingly.

Changde Joint Venture's operating expenses amounted to approximately RMB7.6 million (year ended 31 December 2004: approximately RMB4.7 million), representing an increase of approximately 62%. The operating expenses principally consisted of depreciation of RMB4.9 million and salaries of RMB1 million. Increase in operating expenses was due to the acquisition of a subsidiary in Lin Li County for the year ended 31 December 2005 and the consolidation of the operating expenses in that subsidiary of approximately RMB0.3 million. In addition, the increase in depreciation charges from approximately RMB2.6 million for the year ended 31 December 2004 to RMB4.9 million for the year ended 31 December 2005 also led to increase in Changde Joint Venture's overall operating expenses for the year ended 31 December 2005.

Changde Joint Venture's administrative expenses amounted to approximately RMB4 million (year ended 31 December 2004: approximately RMB3.3 million), representing an increase of approximately 21%. The administrative expenses principally consisted of depreciation of RMB0.7 million, salaries of RMB0.6 million, repairs and maintenance of RMB0.3 million, traveling and accommodation expenses of RMB0.3 million, entertainment expenses of RMB0.2 million, various government duties of RMB0.2 million, staff welfare of RMB0.2 million and insurance of RMB0.2 million. Increase in administrative expenses was due to the acquisition of a subsidiary in Lin Li County for the year ended 31 December 2005 and the consolidation of the administrative expenses in that subsidiary of approximately RMB0.4 million.

Changde Joint Venture's other operating expenses mainly represented loss on disposal of land use rights of RMB2.4 million. For the year ended 31 December 2005, the Company disposed of certain land use rights at a consideration of approximately RMB2.5 million.

Net profit attributable to equity holders for the year ended 31 December 2005 was approximately RMB816,000 (year ended 31 December 2004: loss of approximately RMB7 million). Gross profit margin was maintained steady at 39% for the years ended 31 December 2004 and 2005.

Liquidity, financial resources and capital structure

As at 31 December 2005, Changde Joint Venture has total assets of RMB160 million (31 December 2004: RMB148 million), including net cash and bank balances of approximately RMB3 million (31 December 2004: RMB0.5 million). Except for the project under development of Changde Joint Venture used as security for its short term bank loans, there was no charge on Changde Joint Venture's other assets as at 31 December 2004 and 2005.

As at 31 December 2005, Changde Joint Venture had borrowings of RMB56 million (31 December 2004: RMB50.5 million). The gearing ratio, defined as the ratio between total long term borrowings and the equity attributable to equity holders of the Company, was 45.2% (31 December 2004: 45.7%).

Contingent liabilities

Changde Joint Venture did not have any contingent liabilities as at 31 December 2005 (31 December 2004: nil).

Commitments

Changde Joint Venture did not have any significant capital commitment or operating lease commitment as at 31 December 2005 (31 December 2004: nil).

Significant investments and acquisitions

During the year ended 31 December 2005, Changde Joint Venture did not have any significant investments or acquisitions (year ended 31 December 2004: nil).

Employees

Changde Joint Venture employed a total of 136 employees as at 31 December 2005. Employees' remuneration is in line with market conditions, working experience, and prevailing industry practice. Changde Joint Venture's remuneration policies and packages were reviewed on a regular basis.

Financial performance

For the year ended 31 December 2004, Changde Joint Venture recorded an audited consolidated turnover of approximately RMB23 million representing an increase of approximately 411% as compared to approximately RMB4.5 million for the year ended 31 December 2003. The increase of turnover was because Changde Joint Venture's operation commenced in late 2003 and full year operation for the year ended 31 December 2004 was resulted.

Changde Joint Venture's operating expenses amounted to approximately RMB4.7 million (year ended 31 December 2003: approximately RMB0.6 million), representing an increase of approximately 683%. The operating expenses principally consisted of depreciation of RMB2.6 million, amortization of intangible assets of RMB0.6 million and salaries of RMB0.7 million. Increase in operating expenses was mainly due to the increase in depreciation charges of approximately RMB2.5 million, amortization of intangible assets of RMB0.6 million and increase in salaries of approximately RMB0.6 million.

Changde Joint Venture's administrative expenses amounted to approximately RMB3.3 million (year ended 31 December 2003: approximately RMB1.2 million), representing an increase of approximately 175%. The administrative expenses principally consisted of amortization of land use rights of RMB0.5 million, depreciation of RMB0.3 million, salaries of RMB0.6 million, repairs and maintenance of RMB0.2 million, traveling and accommodation expenses of RMB0.2 million, entertainment expenses of RMB0.2 million, various government duties of RMB0.1 million, staff welfare of RMB0.1 million, provision for doubtful debts of RMB0.3 million and insurance of RMB0.2 million. Increase in administrative expenses was mainly due to the increase in depreciation charges of approximately RMB0.3 million, increase in amortization of land use rights of approximately RMB0.5 million, increase in salaries of approximately RMB0.3 million and increase in provision for doubtful debts of approximately RMB0.3 million.

Changde Joint Venture's other operating expenses mainly represented impairment loss on project under development of RMB7.4 million. As the management considered that part of the projects under construction could not be used in distribution of natural gas due to the obsolescence, loss of impairment on these projects under construction of approximately RMB7.4 million was made.

Net loss attributable to equity holders for the year ended 31 December 2004 was approximately RMB7 million (year ended 31 December 2003: profit of approximately RMB15,000). Gross profit margin was approximately 39% for the years ended 31 December 2004 (year ended 31 December 2003: approximately 60%). The gross margin of installation fee is higher that of sales of gas. Since the extent of increase in sales of gas during the year ended 31 December 2004 was larger than that in the installation fee income during the same year, the gross margin shrunk accordingly. Significant net loss was mainly due to the impairment loss on projects under development of approximately RMB7.4 million for the year ended 31 December 2004.

Liquidity, financial resources and capital structure

As at 31 December 2004, Changde Joint Venture has total assets of RMB148 million (31 December 2003: RMB138 million), including net cash and bank balances of approximately RMB0.5 million (31 December 2003: RMB0.5 million). Except for the project under development of Changde Joint Venture used as security for its short term bank loans, there was no charge on Changde Joint Venture's other assets as at 31 December 2004 (31 December 2003: nil).

As at 31 December 2004, Changde Joint Venture had borrowings of RMB50.5 million (31 December 2003: RMB42 million). The gearing ratio, defined as the ratio between total long term borrowings and the equity attributable to equity holders of the Company, was 45.7% (31 December 2003: 42%).

Contingent liabilities

Changde Joint Venture did not have any contingent liabilities as at 31 December 2004 (31 December 2003: nil).

Commitments

Changde Joint Venture did not have any significant capital commitment or operating lease commitment as at 31 December 2004 (31 December 2003: nil).

Significant investments and acquisitions

During the year ended 31 December 2004, Changde Joint Venture did not have any significant investments or acquisitions (year ended 31 December 2003: nil).

Employees

Changde Joint Venture employed a total of 107 employees as at 31 December 2004. Employees' remuneration is in line with market conditions, working experience, and prevailing industry practice. Changde Joint Venture's remuneration policies and packages were reviewed on a regular basis.

Financial performance

For the year ended 31 December 2003, Changde Joint Venture recorded an audited consolidated turnover of approximately RMB4.5 million. Changde Joint Venture's operating expenses amounted to approximately RMB0.6 million. The operating expenses principally consisted of salaries of RMB0.1 million, repairs and maintenance expenses of RMB0.1 million and transportation expenses of RMB0.1 million. The administrative expenses incurred by Changde Joint Venture of RMB1.2 million principally consisted of depreciation of RMB0.1 million, salaries of RMB0.3 million, repairs and maintenance of RMB0.2 million, traveling and accommodation expenses of RMB0.1 million, and various government duties of RMB0.1 million.

Net profit attributable to equity holders for the year ended 31 December 2003 was RMB15,000. Gross profit margin for the year ended 31 December 2003 was approximately 60%.

Liquidity, financial resources and capital structure

As at 31 December 2003, Changde Joint Venture has total assets of RMB138 million including net cash and bank balances of approximately RMB0.5 million. There was no charge on Changde Joint Venture's assets as at 31 December 2003.

As at 31 December 2003, Changde Joint Venture had borrowings of RMB42 million. The gearing ratio, defined as the ratio between total long term borrowings and the equity attributable to equity holders of the Company, was 42%.

Contingent liabilities

Changde Joint Venture did not have any contingent liabilities as at 31 December 2003.

Commitments

Changde Joint Venture did not have any significant capital commitment or operating lease commitment as at 31 December 2003.

Significant investments and acquisitions

During the year ended 31 December 2003, Changde Joint Venture did not have any significant investments or acquisitions.

Employees

Changde Joint Venture employed a total of 92 employees as at 31 December 2003. Employees' remuneration is in line with market conditions, working experience, and prevailing industry practice. Changde Joint Venture's remuneration policies and packages were reviewed on a regular basis.

BACKGROUND OF HUNAN JOINT VENTURE

The Hunan Joint Venture is principally engaged in the construction and development of natural gas pipeline and related consultation services in the PRC. Currently it is mainly engaged in the construction of a main gas pipeline extending from Changsha City to Changde City. This pipeline is a provincial level main gas pipeline, connected with Zhongxian-Wuhan pipeline which is a branch from the trunk of West-East Gas pipeline. Natural gas sourced from natural gas fields operated by the CNPC group company, passing through the Zhongxian-Wuhan pipeline (which originates from Chongqing City), is transported along the Changsha to Changde pipeline for distribution to city level gas distribution companies. The Hunan Joint Venture is to generate revenue by charging the city level gas distributors such as Changde Joint Venture a transportation fee based on each cubic metre of natural gas transported along the pipeline. The transportation fee levied on each cubic metre of natural gas, which has not yet been determined at the Latest Practicable Date, is subject to the approval of the regional government authority. The pipeline passes through three areas in Hunan Province, namely Wangcheng County (望城縣), Yiyang City (益陽市) and Changde City (常德市), will be used to supply gas to the city gas distributors around the areas.

Management discussion and analysis

Financial performance

As the operation of Hunan Joint Venture has not yet been commenced during the period from 22 April 2005 (date of incorporation) to 31 December 2005 and the six months ended 30 June 2006, no revenue was generated in these periods and only minimal administrative expense were incurred in the period ended 31 December 2005, which resulted in net loss attributable to equity holders of approximately RMB69,000 for the period ended 31 December 2005.

Liquidity, financial resources and capital structure

As at 30 June 2006, Hunan Joint Venture has total assets of RMB346 million (31 December 2005: RMB205 million), including net cash and bank balances of approximately RMB54 million (31 December 2005: RMB2 million). Except for the project under development of Hunan Joint Venture secured for its bank loans, there was no charge on Hunan Joint Venture's other assets as at 30 June 2006 and 31 December 2005.

Hunan Joint Venture did not have any borrowings as at 30 June 2006 and 31 December 2005.

Contingent liabilities

Hunan Joint Venture did not have any contingent liabilities as at 30 June 2006 and 31 December 2005.

Commitments

Hunan Joint Venture did not have any significant capital commitment or operating lease commitment as at 30 June 2006 and 31 December 2005.

Significant investments and acquisitions

During the period from 22 April 2005 (date of incorporation) to 31 December 2005 and the six months ended 30 June 2006, Hunan Joint Venture did not have any significant investments or acquisitions.

Employees

Hunan Joint Venture employed a total of 54 and 41 employees as at 30 June 2006 and 31 December 2005, respectively. Employees' remuneration is in line with market conditions, working experience, and prevailing industry practice. Hunan Joint Venture's remuneration policies and packages were reviewed on a regular basis.

REASONS FOR AND BENEFITS OF THE INVESTMENTS

As at the Latest Practicable Date, Aptus is owned as to approximately 54.88% by the Company, which is principally engaged in the business of trading of edible oil and operation of oil and gas related business. The Company is principally engaged in the provision of software, hardware and other support services to the China lottery industry in various provinces in the PRC. Further, the Company is also involved in the production and distribution of bee related products and other natural products. As stated in the 2006 third quarterly reports of the Company, the Group aims to diversify its business into the lottery and oil and gas sectors in China.

Historically, natural gas has not been a major fuel in China, but given the environmental benefits of using natural gas, China has embarked on a major expansion of its gas infrastructure. According to China's Energy Study Institute of the State Development and Reform Commission of China, demand for natural gas in 2005 was approximately 48 billion cubic metres accounting for approximately 4% of the nation's one-off energy consumption. According to the Energy Study Institute, the growth in demand for natural gas will significantly outpace that of coal and petroleum in the next 20 years. It forecasts that by 2010, consumption of natural gas as a percentage of one-off energy consumption will increase to approximately 6% and further increase to approximately 10% by 2020.

The Chinese Government has undertaken major directives to increase natural gas supply, including and not exclusively the: (i) West-East Gas Pipeline Project; (ii) East Ocean Gas Supply Onshore, Importation of Liquefied Natural Gas (LNG) for Southern China; and (iii) construction work of Russia Gas Supply to China. On the demand side, in addition to the Chinese Government's well aired objectives to increase gas use as a percentage of the energy mix, in February, 2005, the State Council issued the State Council's Certain Opinion about Encouraging, Supporting and Guiding the Development of Privately-Owned Non State-Owned Economy which permitted non state-owned capital to invest in the utilities industries, including supply of natural gas in the cities, and support non state-owned capital activity participate in the investment, construction and operation of municipal public utilities businesses, such as supply of gas in cities and towns.

Taking into account the foresaid government supported policies and the movement towards using environmental-friendly energy source, the Directors and Aptus Directors consider that the Investments will provide a good opportunity for the Group to participate in the natural gas business in the PRC which the Directors and Aptus Directors consider to have substantial growth potential in the future. In Changde City, gas demand has been growing strongly. In 2004 piped gas sales totaled 2.71 million cubic metres growing 142.4% to 6.57 million cubic metres in 2005. This growth has been achieved despite the source of this piped gas being reconstituted liquefied natural gas which has to be refilled by gas refueling station trailer. When the Changsha City to Changde City main gas pipeline comes onstream, natural gas from this pipeline will replace the reconstituted liquefied natural gas as a source of gas. This is anticipated to remove logistical bottlenecks, lower operating costs and also lower end costs to the consumers facilitating strong growth in Changde City gas demand going forward.

Although Hunan Joint Venture was recently established, the construction of gas pipeline by the Hunan Joint Venture in Hunan province has been completed. The pipelines are currently in the testing phrase and expected to commence formal operation by end of 2006. The Directors and Aptus Directors believe that both the investments in Hunan Joint Venture and Changde Joint Venture provide Aptus with a good opportunity to participate in strong growth in natural gas demand in Hunan province with strong cashflow expected to be generated in the near future.

The Directors and Aptus Directors expected that the natural gas consumption in Changde City (常德市), Yiyang City (益陽市) and Wangcheng County (望城縣), in aggregate, will have substantial growth in the following years. The Directors and Aptus Directors believe that the Investments would allow Aptus to move into a solid business area which will generate recurrent cashflow and thus contribute positively to Aptus' operating results in the future. The Directors and Aptus Directors also believe that the Investments would enable the Aptus Group to further expand its business in the oil and gas related industries. CNPC is one of the two largest state-owned petroleum corporations in the PRC. It is a state-owned enterprise whose business operations cover a broad spectrum of upstream and downstream activities, domestic marketing and international trade, technical services, and equipment manufacturing and supply in the PRC. CNPC has extensive resources in the oil and gas related sectors in the PRC.

According to the Changde Agreement and the Hunan Agreement, Aptus is not committed to any further capital commitment to each of Changde Joint Venture and Hunan Joint Venture.

FINANCIAL AND TRADING PROSPECT OF THE GROUP AND CHANGDE JOINT VENTURE AND HUNAN JOINT VENTURE

The Group

As disclosed in the 2006 annual report, the Aptus has made significant strides in establishing a footprint in the oil and gas related industries in the PRC with the acquisition of Xinjiang Oilfield.

The Board considers the Investments an important milestone and a marvelous opportunity for the Group to expand its business into the natural gas industry in the PRC which has more promising growth potential. Besides, the Investments further consolidates the Group's business relationship with Huayou, a wholly-owned subsidiary of CNPC which has extensive resources in the oil and gas related sectors in the PRC. The Board believes the Investments would enable the Group to explore more business opportunities in the oil and gas industries in the PRC and allow the Group to further expand its business.

The Board is optimistic on the prospect of the Group given the benefits anticipated to be accrued to the Aptus as a result of the Investments. The Group will continue to look for opportunities to expand the oil and gas related business by acquisitions that will bring good returns which suit the objectives of the Group.

On the other hand, given the Aptus Directors will use their reasonable endeavours to procure zero cash coupon for the first eighteen months from the date of issue of Convertible Notes (the "Zero Coupon Convertible Notes"), the Directors believe that the Aptus would have no any imminent financial pressure on the payment of the interest incurred for the Convertible Notes. If the Aptus cannot procure the Zero Coupon Convertible Notes, the Directors are of the view that the Aptus would has sufficient financial resources for the ongoing servicing interests payment and obligations of the Convertible Notes with the expected cash inflow generated by the Xinjiang Oilfield project and both Changde Joint Venture and Hunan Joint Venture. In the event that the Convertible Notes will not be converted and hence would need to be repaid by the Aptus, the Aptus Directors believes that Aptus will be able to refinance the Convertible Notes by using its internal resources, bank loan, potential issuance of equity securities or a new convertible notes, among others.

Changde Joint Venture

Changde Joint Venture is managing 2 natural gas projects in Changde City in the PRC (one of which is in Lin Li County (臨澧縣) inside Changde City. It has been granted an exclusive right to supply piped natural gas to the Administrative zone of Changde City for an initial term of 30 years at 2003. Since Changde Joint Venture's commencement of business, it has been supplying end users in Changde City with reconstituted liquified natural gas which has to be refilled by gas refueling station trailer. Changde Joint Venture has an existing intra-city pipeline network and small customer base of residential, commercial and industrial users. As liquefied natural gas is transported in by trailer, this has resulted in a logistical constraint on supply and also a high cost of operation and resultant gas price of over RMB3 per cubic metre for end users, thereby constraining the growth of Changde Venture. In 2004, piped gas sales totaled 2.71 million cubic metres, growing 142.4% to 6.57 million cubic metres in 2005. This growth has been achieved despite the source of this piped gas being reconstituted liquefied natural gas which has to be refilled by gas refueling station trailer. When the Changsha City to Changde City main gas pipeline comes onstream, which is expected to commence operation by end of 2006 (as it is responsible by the Hunan Joint Venture, please refer to the section headed "Hunan Agreement for more details), natural gas from this pipeline will replace the liquefied natural gas as the source of gas. The switch is expected to result in a removal of the logistical constraint on expansion and a less expensive end selling price making the pricing more attractive to end users. The switch from liquefied natural gas to natural gas is expected to result in a new and prolonged phase of growth for Changde Joint Venture. The removal of the logistical constraint and reduced end price of its gas will enable it to more aggressively expand into the residential market and also open up the commercial and industrial market for gas.

Hunan Joint Venture

Hunan Joint Venture was established in the PRC on 22 April 2005. It is principally engaged in the construction of a 187km gas pipeline extending from Changsha City to Changde City, passing through a total of two cities and one county in the Hunan Province. This pipeline is a provincial level main gas pipeline, connected with Zhongxian-Wuhan pipeline which is a branch from the trunk of West-East Gas pipeline. The Changsha City to Changde City pipeline's function is to transport gas from the Zhongxian-Wuhan pipeline for distribution to city level gas distribution companies. The pipeline passes through three areas in Hunan Province, namely Wangcheng County (望城縣), Yiyang City (益陽市) and Changde City (常德市), will be used to supply gas to the city gas distributors around the areas.

The construction of gas pipeline by the Hunan Joint Venture in Hunan province has been completed. The pipelines are currently in the testing phrase and expected to commence formal operation by end of 2006. As can be seen from the above in the Changde Joint Venture future prospects section, the switch from liquefied natural gas to natural gas is expected to result in a new and prolonged phase of growth for Changde Joint Venture due to the removal of the logistical constraints and reduction in end price of gas to consumers. This is also likely to be the case for Yiyang City and Wangcheng County and will provide an attractive demand environment for the Changsha to Changde pipeline.

THE PROPOSED PLACING OF THE CONVERTIBLE NOTES

Aptus intends to finance the Changde Joint Venture and Hunan Joint Venture with a convertible notes (the "Convertible Notes") offering. The principal amount of the Convertible Notes is expected to be approximately HK$234 million. Currently, Aptus is in negotiation with several potential investors who are independent of and not connected with it, its subsidiaries and their respective connected persons (as defined under the GEM Listing Rules) regarding the terms and conditions of the Convertible Notes. Details terms and conditions of the offering are currently being negotiated between the Company and the potential investors. A further announcement will be made by Aptus and the Company when a subscription agreement is entered into by Aptus and the investors (the "Subscription Agreement") which will also outline the detailed terms and conditions of the Convertible Notes.

The proposed Convertible Notes (when issued) is proposed to have a principal amount of approximately HK$234 million with a term of approximately 5 years from the date of issue of the Convertible Notes. The potential investors will have the right to convert the Convertible Notes into conversion shares (the "Conversion Shares") during the term of the Convertible Notes based on an agreed conversion price (the "Conversion Price"). In order to provide the Company with more flexibility to raise more fund when the market condition is good and minimise the dilution effect to Shareholders, the Directors expect the number of Shares to be issued will not exceed 8.85% of the issued share capital of the Company as enlarged by the issue of Convertible Notes upon conversion of the Convertible Notes in full (the "Issue Limit"). In the event that the numbers of Conversion Shares to be allotted and issued exceed the Issue Limit, the Directors will voluntarily seek for specific approval from Shareholders in relation to the issue of Convertible Notes at an extraordinary general meeting of the Company. In addition, Aptus envisages that the Convertible Notes will bear no cash coupon for the first eighteen months from the date of issue of the Convertible Notes.

Based on the above indicative terms, Aptus would have not any imminent financial pressure on the payment of the interest incurred for the Convertible Notes. With the projected cash inflow generated by the Xinjiang Oilfield project and both Changde Joint Venture and Hunan Joint Venture, Aptus Directors are of the view that Aptus would have sufficient financial resources for the ongoing servicing obligations of the Convertible Notes. In the event that the Convertible Notes will not be converted and hence would need to be repaid by Aptus, the Aptus Directors believes that it will be able to refinance the Convertible Notes by using its internal resources, bank loan, potential issuance of equity securities or a new convertible notes, among others.

The following table outlines the shareholding structure of Aptus as at the Latest Practical Date and immediately after the allotment and issue of the Conversion Shares, assuming (1) a principal amount of HK$234 million for the Convertible Notes, (2) the Convertible Notes are converted in full, (3) the Conversion Price is equivalent to the closing price of Aptus's shares on 17 October 2006 of HK$2.23 per share, being the closing price as quoted on the Latest Practicable Date.

	As at the Latest Practicable Date		**Immediately after the allotment and issue of the Conversion Shares (which are issued and converted in full for the principal amount of HK$234 million) based on the initial Conversion Price**	
	No. of Shares	*Approximate % of issued share capital of Aptus*	*No. of Shares*	*Approximate % of issued share capital of Aptus*
China Vanguard	915,571,428	54.88%	915,571,428	51.63%
Investors	–	–	104,935,000	5.92%
Public	752,870,000	45.12%	752,870,000	42.45%
Total	1,668,441,428	100.00%	1,773,376,428	100.00%

The following table outlines the shareholding structure of Aptus as at the Latest Practical Date and immediately after the issue of the Conversion Shares, assuming (1) a principal amount of HK$234 million for the Convertible Notes, (2) the Convertible Notes are converted in full, (3) maximum number of Conversion Shares to be issued without exceed the Issue Limit.

	As at the Latest Practicable Date		**Immediately after the issue of the Conversion Shares (which are issued and converted in full for the principal amount of HK$234 million) based on the minimum floor Conversion Price**	
	No. of Shares	*Approximate % of issued share capital of Aptus*	*No. of Shares*	*Approximate % of issued share capital of Aptus*
China Vanguard	915,571,428	54.88%	915,571,428	50.02%
Investors	–	–	162,000,000	8.85%
Public	752,870,000	45.12%	752,870,000	41.13%
Total	1,668,441,428	100.00%	1,830,441,428	100.00%

As set out in the table above, the maximum number of the Conversion Shares expected could be allotted and issued without the approval of shareholders of Aptus is 162,000,000, meaning that the minimum floor Conversion Price would be HK$1.44 per Conversion Share for raising the principal amount of HK$234 million.

Shareholders should note that given the placing of Convertible Notes will be implemented on a best effort basis, the exact number of Conversion Shares and final conversion price are subject to further negotiation and agreement between Aptus and the investors.

FINANCIAL EFFECT OF THE INVESTMENTS

Net assets

The audited consolidated net asset value of the Group as at 30 June 2006 as stated in the annual report of the Company for the year ended 30 June 2006 was approximately HK$453,851,000. As set out in Appendix IV to this circular, assuming completion of the Acquisition had taken place on 30 June 2006, the pro forma net assets of the Enlarged Group would have been approximately HK$453,970,000. Therefore, the Investments will slightly increase the Group's net assets position.

Earnings

Upon completion of the Investments, all the earnings of the Changde Joint Venture and Hunan Joint Venture before completion of the Investments will be accounted for pre-acquisition profit in the financial statement of the Group which shall not have any effect on the earnings of the Group. However, the Directors expect that upon completion of the Investments of the natural gas business, the Group will be able to share the profit generated from both Changde Joint Venture and Hunan Joint Venture, which will in turn improve the profitability of the Group given the growing demand of gas supply in the PRC.

EXTRAORDINARY GENERAL MEETING

The shares of the Company and Aptus are all listed on the Stock Exchange. As at the Latest Practicable Date, the Company controls approximately 54.88% of the total voting rights of Aptus. The Investments constitute a major transaction for the Company under Rules 19.06(3) of the GEM Listing Rules and accordingly, the completion of the Investments is subject to the approval by the Shareholders at the EGM. To the best of Directors' knowledge, as at the Latest Practicable Date, information and belief have made all reasonable enquiries, no Shareholder has interest in the Investments and therefore no Shareholder is required to abstain from voting in respect of the proposed resolution to approve the Investments at the EGM.

Set out on pages 175 to 176 is a notice convening the EGM to be held at 30th Floor, Sunshine Plaza, 353 Lockhart Road, Hong Kong at 2:00 p.m. on 7 November 2006 for the purpose of considering and if thought fit approving the Investments.

A form of proxy is also enclosed. Whether or not you are be able to attend the EGM, you are requested to complete the accompanying form of proxy, in accordance with the instructions printed thereon and deposit the same to the head office and principal place of business in Hong Kong of China Vanguard Group Limited at 30th Floor, Sunshine Plaza, 353 Lockhart Road, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

PROCEDURES FOR DEMANDING A POLL AT EXTRAORDINARY GENERAL MEETING

As at the Latest Practicable Date, according to Article 80 of the articles of association of the Company (the "**Articles**"), at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded. A poll may be demanded by:

(a) the chairman of the meeting; or

(b) at least five Shareholders present in person or by proxy or, in the case of corporations, by their duly authorised representatives, and entitled to vote or who represent in the aggregate not less than one-tenth of the total voting rights of all Shareholders having the right to attend and vote at the meeting; or

(c) any Shareholder or Shareholders present in person or by proxy or, in the case of corporations, by their duly authorised representatives, and holding Shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all Shares conferring that right.

Assuming the passing of the special resolution for the amendments to be made to Article 80 at the annual general meeting of Company to be held on Tuesday, 24 October 2006 at 10:30 a.m., at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless voting by way of a poll is required by the GEM Listing Rules or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded. A poll may be demanded by:

(a) the chairman of the meeting; or

(b) at least five Shareholders present in person or by proxy or, in the case of corporations, by their duly authorised representatives, and entitled to vote or who represent in the aggregate not less than one-tenth of the total voting rights of all Shareholders having the right to attend and vote at the meeting; or

(c) any Shareholder or Shareholders present in person or by proxy or, in the case of corporations, by their duly authorised representatives, and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all Shares conferring that right; or

(d) if required by the GEM Listing Rules, any Director holding proxies if such aggregate proxies held individually or collectively by the Directors account for five (5) per cent or more of the total voting rights at that meeting, and if on a show of hands in respect of any resolution, the meeting votes in the opposition manner to that instructed in those proxies.

RECOMMENDATION

Having taken into consideration of the principal factors and reasons, in particular,

(i) natural gas industry has been supported by government policies and the country movement towards using environmental-friendly energy source;

(ii) it is expected that the natural gas consumption in Changde City, Yiyang City and Wangcheng County, in aggregate, will have substantial growth in the following years; and

(iii) the Investment provide a good opportunity to participate in the natural gas business which generates a more stable and promising cash inflow to the Group.

The Board is of the opinion that the terms of the Investments are fair and reasonable and the Investments are in the interest of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM in respect of the Investments.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information contained in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board of
China Vanguard Group Limited
Chan Ting
Director

1. THREE YEARS FINANCIAL SUMMARY

Set out below is a summary of the audited financial information on the Group for the three years ended 30 June 2006, extracted from the respective annual reports of the Company:

	For the year ended 30 June		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK'$000*
RESULTS			
Turnover	81,608	189,131	192,971
Cost of sales	(55,284)	(142,875)	(141,394)
Gross profit	26,324	46,256	51,577
Other revenue	34,282	5.112	167
Selling and distribution costs	(3,718)	(12,747)	(8,865)
Administrative expenses	(111,252)	(18,884)	(11,050)
Loss on disposal of an associate	(13,106)	–	–
Loss on disposal of a jointly controlled entity	–	(2,789)	–
Gain on disposal of subsidiaries	–	6,945	–
Profit (Loss) from operations	(67,470)	23,893	31,829
Finance costs	(3,005)	(1,849)	(691)
Share of result of associates	18,830	17,653	–
Profit (Loss) before taxation	(51,645)	39,697	31,138
Income tax expenses	(6,717)	(9,086)	(1,861)
Profit (Loss) after taxation	(58,362)	30,611	29,277
Dividend	3,049	9,643	8,658
Attributable to:			
Equity holders of the Company	(39,908)	31,685	29,013
Minority interests	(18,454)	(1,074)	264
	(58,362)	30,611	29,277
ASSETS AND LIABILITIES			
Total assets	519,414	248,351	187,222
Total Liabilities	65,563	77,580	44,932
Minority interests	55,893	10,129	4,824
Equity attributable to equity holders of the Company	397,958	160,462	137,466

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 30 JUNE 2006

Set out below is a summary of the audited financial statements of the Group for the years ended 30 June 2006 together with the relevant notes to the accounts as extracted from the audited financial statements of the Group for the year ended 30 June 2006.

Consolidated Income Statement

For the year ended 30 June 2006

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

Consolidated Balance Sheet
At 30 June 2006

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

Consolidated Statement of Changes in Equity

For the year ended 30 June 2006

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

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

Consolidated Cash Flow Statement

For the year ended 30 June 2006

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporation information to the annual report.

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

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

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

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

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

Business combinations

The adoption of HKFRS 3 "Business Combinations" has resulted in a change in the accounting policy relating to the discontinuation of amortization of goodwill arising on acquisitions.

With respect to goodwill previously capitalized on the balance sheet, the Group has discontinued amortizing such goodwill from 1 July 2005 onwards and such goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1 July 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition and will be tested for impairment at least annually. As a result of this change in accounting policy, no amortization of goodwill has been charged in the current year. Comparative figures for the corresponding period have not been restated.

In the current year, the Group has also applied HKAS 21 "The Effects of Changes in Foreign Exchange Rates" which requires goodwill to be treated as assets and liabilities of the foreign operation and translated at closing rate at each balance sheet date. Previously, goodwill arising on acquisitions of foreign operations was reported at the historical rate at each balance sheet date. In accordance with the relevant transitional provisional HKAS 21, goodwill arising on acquisitions prior to 1 July 2005 is treated as a non-monetary foreign currency item. In the current year, the Group acquired some foreign operations, and goodwill arose on the acquisitions has been translated at the closing rate at 30 June 2006. There is no material impact on the Group's translation reserve in respect of such transaction.

Share-based payments

In the current year, the Group has applied HKFRS 2 "Share-based Payment" which requires an expenses to be recognized where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over share ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to employees and eligible participants of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognize the financial effect of these shares option until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 January 2005. In relation to share options granted before 1 January 2005, the Group chooses not to apply HKFRS 2 with respect to share options granted on or before 7 November 2002 and vested before 1 January 2005. In relation to share options granted by the Group after 7 November 2002, all of them were vested before 1 January 2005 and therefore no comparative figures have been restated.

Financial instruments

In the current year, the Group has applied HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement. HKAS 32 requires retrospective application and HKAS 39, which is effective for accounting periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measure financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact or how financial instruments of the Group are presented for current and prior accounting periods. The principal effects resulting from the implementation of HKAS 39 are summarized below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

However, there has been no material effect on how the results for the current accounting period are prepared and presented.

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of Statement of Standard Accounting Practice 24) in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognized in profit or loss directly. Other financial liabilities are carried at amortized cost using the effective interest method after initial recognition. The Group has applied the relevant transitional provisions in HKAS 39. However, there has been no material effect on how the results for the current accounting period are prepared and presented.

Owner-occupied leasehold interest in land

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

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

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effect of the change in the accounting policies described above on the results for the year ended 30 June 2006 is principally the recognition of share-based payments as expenses of approximately HK$75,459,000 and there is no material effect on the result for the year ended 30 June 2005.

The cumulative effect of the application of the new HKFRSs on equity as at 1 July 2004, 30 June 2005 and 1 July 2005 were reclassification of minority interests under the Group's capital and reserves, which is resulted from adoption of HKAS 1 "Presentation of Financial Statements". Accordingly, the equity of the Group as at 1 July 2004 was increased by approximately HK$4,824,000 from approximately HK$137,466,000 to HK$142,290,000 and that as at 30 June 2005 and 1 July 2005 was increased by HK$10,129,000 from HK$160,642,000 to HK$170,771,000.

3. POTENTIAL IMPACT ARISING ON THE NEW ACCOUNTING STANDARD NOT YET EFFECTIVE

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new HKFRSs will have no material impact on the consolidated financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 21 (Amendment)	Net Investment in a Foreign Operation[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts[2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC) – Int 4	Determining whether an Arrangement Contains a Lease[2]
HK(IFRIC) – Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds[2]
HK(IFRIC) – Int 6	Liabilities arising from Participating in a Specific Market, Waste Electrical and Electronic Equipment[3]
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

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

2 Effective for annual periods beginning on or after 1 January 2006

3 Effective for annual periods beginning on or after 1 December 2005

4 Effective for annual periods beginning on or after 1 March 2006

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong, which include HKFRSs issued by the HKICPA and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the GEM of the SEHK and of the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year ended 30 June 2006. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All inter-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1 July 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary or associate at the date of acquisition.

For previously capitalized goodwill arising on acquisitions, the Group has discontinued amortization from 1 July 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired.

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1 July 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

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

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

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

Investment in associates

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

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

Revenue recognition

Revenue from sales of goods is recognized on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to the customers and the title has passed.

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

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

Property, plant and equipment

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

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

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

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

Impairment losses (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

Intangible assets

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

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

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

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

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

Patents

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

Technical know-how

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

Computer software in lottery systems

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

Research and development expenditures

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

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

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

Impairment

Intangible assets with indefinite useful lives are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimated of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

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

Inventories

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

Financial instruments

Financial assets and financial liabilities are recognized on the balance sheet when a Group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, deposits and loan receivables) are carried at amortized cost using the effective interest method, less any identified impairment losses. An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognized, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Available-for-sale financial assets

Available-for-sale financial assets are investments in unlisted equity securities which are intended to be held for a continuing strategic or long term purpose and are stated at fair value, except for those equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any accumulated identified losses.

In respect of available-for-sale financial assets carried at fair value, the gains or losses arising from changes in the fair value of an investment are dealt with as movements in the investment revaluation reserve, until the investment is sold, collected, or otherwise disposed of, or until the investment is determined to be impaired, the cumulative gain or loss derived from the investment recognized in the investment revaluation reserve, together with the amount of any further impairment, is charged to the income statement in the year in which the impairment arises.

In respect of available-for-sale financial assets carried at cost less any accumulated impairment losses, when there is objective evidence that an impairment loss has been incurred on an investment, the carrying amount of the investment should be reduced to the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and the amount of the impairment is charged to the income statement in the year in which it arises. Impairment losses recognised shall not be reversed in subsequent periods.

Financial liabilities and equity

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

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

Other financial liabilities

Other financial liabilities including trade and other payables, loan from a shareholder and borrowings are subsequently measured at amortized cost, using the effective interest rate method.

Equity instruments

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

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognized in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognized and the consideration received or receivable is recognised in profit or loss.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

Foreign currencies

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

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the exchange translation reserve.

Cash and cash equivalents

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

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

Provisions

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

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

Employee benefits

(a) Retirement benefits schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiary that operated in the People's Republic of China and Singapore are required to participate in a central pension scheme operated by the local municipal government and Central Provident Fund Scheme, respectively. These subsidiaries are required to contribute pension, based on a certain percentage of their payroll costs, to the pension schemes. The contributions are charged to income statement as they become payable in accordance with the rules of the pension schemes.

(b) Share option schemes

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participant who, in the sole discretion of the Board, have contributed or may contribute to the Group. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

(c) Share award scheme

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

Retirement benefit costs

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

Dividends

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

Equity-settled share-based payment transactions

Share options granted to directors, employees or other eligible participants of the Company.

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the time when the share options are exercised, the amount previously recognized in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognized in share option reserve will be transferred to retained earnings.

Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the income statement on a straight-line basis over the lease periods.

Borrowing costs

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

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

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in Note 4, management has made the following judgments that have significant effect on the amounts recognized in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below:

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account of their estimated residual value. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year and the estimate will be changed in the future period.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual cash flows are less than expected, a material impairment loss may arise. As at 30 June 2006, the carrying amount of goodwill is HK$135,061,000. Details of the recoverable amount calculation are disclosed in note 17.

Amortization of other intangible assets

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

Income taxes

As at 30 June 2006, no deferred tax asset was recognized in the Group's consolidated balance sheet in relation to the estimated unused tax losses of approximately HK$37,084,000 due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are more than expected, a material recognition of deferred tax asset may arise, which would be recognized in the income statement for the period in which such recognition takes place.

Share option benefit expenses

The share option benefit expense is subject to the limitations of the Black-Scholes option pricing model and the uncertainty in estimates used by management in the assumptions. The estimates include limited early exercise behavior, expected interval and frequency of open exercise periods in the share option life, and other relevant parameters of the share option model (see note 25 for the estimates).

The number of options to be vested at the end of vesting period involves management estimation. Should the number of options being vested at the end of vesting period be changed, there would be material changes in the amount of share option benefits recognized in the consolidated income statement and share option reserve.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade receivables, prepayments, deposits and other receivables, accounts payables, other payables and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 30 June 2006 in relation to each class of recognized financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimize the credit risk, the management of the Group has closely monitoring the recoverability of the financial assets. In addition, the Group reviews the recoverable amount of each individual financial asset at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Foreign currency risk

For the year ended 30 June 2006, the Group's trade transactions are denominated in Renminbi, Hong Kong Dollars and Singaporean Dollars. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's interest bearing borrowings.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of borrowings. The Group's exposure to liquidity risk is minimal.

7. SEGMENT INFORMATION

a. Business segments

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

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

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

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

b. Geographical market segments

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

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

8. REVENUE AND OTHER REVENUE

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

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

Revenue recognized during the year is as follows:

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

9. FINANCE COSTS

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

10. (LOSS) PROFIT BEFORE INCOME TAX

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

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

Emoluments paid or payable to each of the 11 (2005: 9) directors of the Company during the year were as follows:

For the year ended 30 June 2006

	Fees	Salaries and other emoluments	Contribution to retirement benefits scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors:				
Cheung Kwai Lan	102	1,950	–	2,052
Chan Ting	102	1,300	16	1,418
Chan Tung Mei	78	650	–	728
Lau Hin Kun	74	258	12	344
Independent Non-executive Directors:				
Professor Peter Chin Wan Fung *(Note 1)*	31	–	–	31
Tian He Nian	117	–	–	117
Du Ying Min *(Note 2)*	39	–	–	39
Tsui Wing Tak *(Note 3)*	38	–	–	38
Zhao Zhi Ming *(Note 4)*	78	–	–	78
To Yan Ming, Edmond *(Note 5)*	59	–	–	59
Non-executive Director:				
Shaw Kyle Arnold Junior	78	–	–	78
	796	4,158	28	4,982

For the year ended 30 June 2005

	Fees	Salaries and other emoluments	Contribution to retirement benefits scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors:				
Cheung Kwai Lan	90	1,950	–	2,040
Chan Ting	96	1,300	12	1,408
Chan Tung Mei	78	650	–	728
Lau Hin Kun	13	274	12	299
Independent Non-executive Directors:				
Professor Peter Chin Wan Fung *(Note 1)*	78	–	–	78
Tian He Nian	125	–	–	125
Du Ying Min *(Note 2)*	78	–	–	78
Tsui Wing Tak *(Note 3)*	96	–	–	96
Non-executive Director:				
Shaw Kyle Arnold Junior	78	–	–	78
	732	4,174	24	4,930

Notes:

1. resigned on 25 November 2005

2. resigned on 30 December 2005

3. resigned on 11 January 2006

4. appointed on 30 December 2005

5. appointed on 11 January 2006

(b) Senior management emoluments

Of the five individuals whose emoluments were the highest in the Group for the year include three (2005: three) Directors whose emoluments are set out in the above. The emoluments payable to the remaining two (2005: two) individual during the year as follows:

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

The emoluments fell with the following bands:

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

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

12. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

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

13. INCOME TAX EXPENSES

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

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

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

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

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

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

At the balance sheet date, the subsidiaries have unused tax losses of approximately HK$37,084,000 (2005: HK$27,963,000) available for offset against future profits. No deferred tax asset has been recognized in respect of the unused tax losses due to the unpredictability of future profits streams in the subsidiaries. Deductible temporary differences have not been recognized in these financial statements owing to the absence of objective evidence in respect of the availability of sufficient taxable profits that are expected to arise to offset against the deductible temporary differences. Such tax losses have no expiry date.

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

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

14. DIVIDENDS

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

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

15. (LOSS) EARNINGS PER SHARE

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

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

Number of shares

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

16. PROPERTY, PLANT AND EQUIPMENT

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

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

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

17. GOODWILL

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

The goodwill, which arose from acquisition of subsidiaries, is not amortized commencing from 1 July 2005 in accordance with the transitional provisional of HKFRS 3.

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units ("CGUs") that are expected to benefit from that business combination.

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

In connection with the impairment test on the goodwill arising from the acquisition of subsidiaries, CNPC Huayou Cu Energy Investment Co. Limited and Shenzhen Bozone IT Co. Limited (the "subsidiaries"), during the year, the management of the Group prepared a profit forecast and a cash flow forecast (the "Forecast") in respect of the subsidiaries. The cash flow forecast based on financial budgets approved by management covering a period of 3 years and a discount rate of 5%. Cash flow forecast during the budget period are based on the expected gross margins during the budget period. Budgeted gross margins have been determined based on the management's expectation for the market development and the management believes that the budgeted gross margins are reasonable. The Directors are of the opinion, based on the Forecast, that the recoverable amount of the goodwill arising from acquisition of the subsidiaries, the recoverable amount exceeds its carrying amount in the consolidated balance sheet and no impairment is necessary.

18. OTHER INTANGIBLE ASSETS

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

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

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

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

19. INTEREST IN ASSOCIATES

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

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

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

20. INVENTORIES

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

All inventories are stated at cost.

21. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

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

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

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

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

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

22. TRADE AND OTHER PAYABLES

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

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

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

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

23. BORROWINGS

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

The Group's borrowings are repayable as follows:

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

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

Notes:

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

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

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

24. SHARE CAPITAL

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

Notes:

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

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

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

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

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

25. SHARE-BASED PAYMENT TRANSACTIONS

Pre-IPO Share Option Scheme

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

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

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

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

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

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

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

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

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

Share Option Scheme

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

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

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

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

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

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

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

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

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

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

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

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

2006

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

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

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

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

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

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

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

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

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

2005

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

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

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

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

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 2 years. The expected life used in the model has been adjusted, based on the management's best estimate, for the effects on non transferability, exercise restrictions and behavioural considerations.

The risk-free rate represents the yields to maturity of respective Hong Kong Exchange Fund Note as at 22 March 2006.

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

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

26. ACQUISITION OF SUBSIDIARIES

During the year, the Group acquired 70% equity interest in Huayou Cu (via Aptus Holdings Limited) and Shenzhen Bozone IT Co. Ltd. and its subsidiaries and an associate ("Bozone") at a consideration of approximately HK$29,000,000 and HK$101,726,000, respectively. For the acquisition of Huayou Cu, the Group has paid cash consideration of HK$5,000,000 and issued 20,000,000 ordinary shares of its subsidiary, Aptus Holdings Limited ("Aptus") of HK$0.01 per share for the acquisition. The closing price of Aptus share as at 11 January 2006, the completion date of the transaction was HK$1.20 and non-cash consideration of HK$24,000,000 for this acquisition transaction was resulted. The registered capital of Huayou Cu is RMB100,000,000 (equivalent to approximately HK$97,087,000) and RMB15,950,000 (equivalent to approximately HK$15,485,000) has been paid up by minority interest and considered as the capital contributed by minority interest upon the completion of aforesaid acquisition. Accordingly, the Group has to further invest RMB70,000,000 (equivalent to approximately HK$67,961,000) into Huayou Cu and during the year, the Group has invested RMB31,099,000 (equivalent to approximately HK$30,000,000). The total consideration for the acquisition transaction is HK$96,961,000, which has been partially settled by issuance of the Company's shares of HK$24,000,000 and cash of HK$35,000,000 as of the balance sheet date.

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

The net assets were stated as follows:

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

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

The acquirees' carrying amount of net assets before combination approximates to its fair value. Accordingly, no fair value adjustments are required. Huayou Cu contributed to the Group's loss before taxation of approximately HK$463,000 between the date of acquisition and the balance sheet date.

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

27. CONTINGENT LIABILITIES

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

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

28. OPERATING LEASE COMMITMENTS

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

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

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

29. CAPITAL COMMITMENTS

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

30. RETIREMENT BENEFITS SCHEME

With the introduction of Mandatory Provident Fund Scheme (the "MPF Scheme") in December 2000 in Hong Kong, the Group has arranged its employees in Hong Kong to join the MPF Scheme. The retirement benefits scheme contributions charged to the consolidated income statement represents contributions payable to the MPF Scheme by the Group at rates specified in the rules of the MPF Scheme.

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

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

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

31. PROVISION FOR LONG SERVICE PAYMENTS

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

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

32. PLEDGE OF ASSETS

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

33. EVENTS AFTER THE BALANCE SHEET DATE

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

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

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

34. SHARE AWARD SCHEME

On 24 January 2005, the Company adopted a share award scheme for employees and consultants, excluding executive directors and chief executive, of the Group for the purpose of recognizing the contributions of certain employees and consultants of the Group to the growth of the Group, by rewarding them with opportunities to obtain an ownership interest in the Company and to further motivate them and give an incentive to these persons to continue to contribute to the Group's long term success and prosperity. Under the scheme, following the making of an award to employees and consultants, the relevant newly issued shares vest over a period of time provided that the employees and consultants continue to contribute to the Group at the relevant time and satisfies any other conditions specified at the time the award is made. The maximum aggregate number of shares that can be awarded under the scheme is limited to 20% of the issued share capital of the Company and no cash consideration should be paid for the shares allotted under the share award scheme.

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

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

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

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

35. COMPARATIVE FIGURES

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

36. RELATED PARTY TRANSACTIONS

Compensation of directors and key management personnel

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

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

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

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

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

Name of company	Place of incorporation/ operation	Class of shares held/Issued and fully paid up shares/registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Precise Result Profits Limited	British Virgin Islands	Ordinary share US$1	–	100%	Investment holding
Aptus Holdings Limited	Cayman Islands	Ordinary shares HK$16,681,414	–	54.89%	Investment holding
China Success Enterprises Limited	British Virgin Islands	Ordinary shares US$2,000	100%	–	Investment holding
Loyalion Limited	Hong Kong	Ordinary shares HK$1,000	–	100%	Distribution of natural supplementary products and investment holding
Wuhu Bee & Bee Natural Food Company Limited#	PRC	Registered capital US$1,000,000	–	55%	Manufacture and distribution of natural supplementary products
Zhuhai Free Trade Zone Bee & Bee Natural Food Company Limited#	PRC	Registered capital HK$1,000,000	–	100%	Distribution of natural supplementary products
B & B International Marketing (HK) Limited	Hong Kong	Ordinary shares HK$2	–	100%	Distribution of natural supplementary products
B & B International Marketing Limited	British Virgin Islands	Ordinary share US$1	–	100%	Investment holding
B & B Winery Limited	Hong Kong	Ordinary shares HK$1,000	–	100%	Investment holding
B & B Enterprises Limited	Hong Kong	Ordinary shares HK$100	–	100%	Investment holding
Natural Lives Company Limited	Hong Kong	Ordinary shares HK$500,000	–	60%	Distribution of natural supplementary products
B & B Bio-Products Limited	British Virgin Islands	Ordinary share US$1	–	100%	Investment holding

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 Group Holdings Limited (Formerly known as High Faith (China) Limited)	Hong Kong	Ordinary share HK$1	–	100%	Investment holding
Rain International Company Limited	Hong Kong	Ordinary shares HK$1,000,000	–	100%	Investment holding
La Cucina Italian (Macau) Limited**	Macau	Share capital MOP$25,000	–	60%	Restaurant and import and export of correspondent products
Step Gain Limited**	British Virgin Islands	Ordinary shares US$10	–	60%	Investment holding
雙遼市步得秸稈科技有限公司**# (Shuang Liao City Step Gain Technology Limited†)	PRC	Registered capital HK$1,600,000	–	60%	Animal feed (玉米秸飼料、複合肥料、作物秸稈)
Greatest Luck Limited**	British Virgin Islands	Ordinary share US$1	–	100%	Investment holding
深圳生港蜂業有限公司**# (B & B (Shenzhen) Limited†)	PRC	Registered capital US$4,000,000	100%	–	Investment holding
廣州樂得瑞計算機技術有限公司**# (Guangzhou Latech Computer Technology Co. Limited†)	PRC	Registered capital RMB6,060,000	–	50.5%	Provision of lottery-related hardware and software systems
Ace Bingo Group Limited**	British Virgin Islands	Ordinary share US$1	–	100%	Investment holding
Cheerfull Group Holdings Limited*	British Virgin Islands	Ordinary share US$50,000	–	51%	Investment holding
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

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

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

** *Subsidiaries newly established during the year*

* *Subsidiaries acquired during the year*

† *For identification only*

4. MANAGEMENT AND DISCUSSION AND ANALYSIS

The following is the management discussion and analysis as extracted from the annual report of the Company for the year ended 30 June 2006:

Financial review

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

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

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

Employment and remuneration policies

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

Liquidity and financial resources

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

Exposure to fluctuations in exchange rates and any related hedges

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

Significant investments

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

Material Acquisitions and disposals of subsidiaries

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

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

Contingent liabilities

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

Charges on group assets

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

Capital structure

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

5. INDEBTEDNESS

At the close of business on 31 August 2006, being the latest practicable date for the purpose of preparing this indebtedness statement prior to the printing of this circular, the Group had unsecured borrowings of approximately HK$32,171,000, of which HK$22,500,000 is due within 2 years from its drawdown date and the balance of HK$9,671,000 does not have any fixed terms of repayment.

Save as aforesaid and apart from intra-group liabilities, as at 30 June 2006, the Group had no debt securities issued and outstanding, and authorised or otherwise created but unissued, term loans, distinguishing between guaranteed, unguaranteed, secured and unsecured, and guaranteed, unguaranteed, secured and unsecured bank borrowings including, bank loans and overdrafts or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credit, hire purchase or finance lease commitments, guarantees or other material contingent liabilities.

To the best understanding and knowledge of the Directors, the Directors confirmed that there is no material adverse change in the indebtedness position of the Group since 30 June 2006 up to the Latest Practicable Date.

6. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the Group's present internal resources and availability banking facilities or similar indebtedness upon the completion, the Group has sufficient working capital for its present requirements for at least the next 12 months from the date of publication of this circular.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position or prospects of the Group since 30 June 2005, the date to which the latest audited consolidated financial statements of the Company were made up.

The following is the text of a report, prepared for inclusion in this circular, received from W.H. Tang & Partners CPA Limited, the independent reporting accountants.

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W.H. TANG & PARTNERS CPA LIMITED

19 October 2006

The Directors
China Vanguard Group Limited
30th Floor
Sunshine Plaza
No. 353 Lockhart Road
Wanchai
Hong Kong

Dear Sirs,

We set out below our report on the financial information relating to 常德華油燃氣有限公司 (Changde Huayou Gas Co. Ltd*), a company incorporated in the People's Republic of China ("PRC") with limited liability on 11 October 1999 ("Changde Huayou"), for each of the years ended 31 December 2003, 2004 and 2005, the period from 1 January 2006 to 30 June 2006 (hereafter collectively referred to as the "Relevant Periods") for inclusion in the circular of China Vanguard Group Limited dated 19 October 2006 (the "Circular"), in connection with the acquisition of an aggregate of 48.33% equity interest in Changde Huayou.

Changde Huayou and its subsidiary (the "Group") is principally engaged in the business of gas pipeline design, the supply, development and management of natural gas distribution facilities in the PRC.

The financial statements of Changde Huayou for the Relevant Periods has been prepared in accordance with accounting principles generally accepted in the PRC. The financial statements for the 2 years ended 31 December 2004 and 2005 of Changde Huayou were audited by a CPA firm in PRC. We have also carried out independent audit procedures with reference to Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") on the financial statements for this period.

No audited financial statements have been prepared by Changda Huayou for the year ended 31 December 2003 and six months ended 30 June 2006. For the purpose of this report, we have, however, carried out independent audit procedures with reference to Hong Kong Standards on Auditing issued by the HKICPA on the management accounts of Changde Huayou for the year ended 31 December 2003 and the six months ended 30 June 2006.

The financial information as set out on pages 82 to 101 ("Financial Information") has been prepared based on the audited financial statements or, where appropriate, unaudited management accounts of Changde Huayou for the Relevant Periods, which were made available to us by the directors of Changde Huayou, and we have carried out such additional procedures as are necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The directors of Changde Hauyou are responsible for preparing the Financial Information which gives a true and fair view. In preparing the Financial Information, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of Changde Huayou as at 31 December 2003, 2004 and 2005 and 30 June 2006 and of the results and cash flows of Changde Huayou for the Relevant Periods.

The comparative consolidated income statement, consolidated statements of changes in equity and consolidated cash flow statements of Changde Huayou for the six months ended 30 June 2005 together with the notes thereon (the "30 June 2005 Financial Information") have been extracted from Changde Huayou's financial information for the same period which was prepared by the directors of Changde Huayou solely for the purpose of this report. We have reviewed the financial information for the six months ended 30 June 2005 in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA. A review consists principally of making enquiries of the management and applying analytical procedures to the financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as test of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provided a lower level of assurance than an audit. Accordingly we do not express an audit opinion on 30 June 2005 Financial Information. On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the 30 June 2005 Financial Information of Changde Huayou for the Relevant Periods.

Yours faithfully,
W.H. Tang & Partners CPA Limited
Certified Public Accountants
Hong Kong

I. FINANCIAL INFORMATION

Consolidated Income Statement

		For the year ended 31 December			For the six months ended 30 June	
		2005	2004	2003	2006	2005
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	*5*	38,525	22,955	4,505	21,797	15,442
Cost of sales		(23,326)	(13,994)	(1,800)	(15,278)	(10,836)
Gross profit		15,199	8,961	2,705	6,519	4,606
Other revenue	*6*	1,474	753	163	466	960
Operating expenses		(7,602)	(4,699)	(644)	(3,974)	(2,733)
Administrative expenses		(3,999)	(3,279)	(1,212)	(1,801)	(1,710)
Other operating expenses		(2,534)	(7,504)	(15)	–	(137)
Finance costs	*7*	(1,323)	(940)	(979)	(834)	(613)
Profit (loss) before taxation	*9*	1,215	(6,708)	18	376	373
Income tax expenses	*11*	(401)	(342)	(3)	(121)	–
Net profit (loss) for the year/period		814	(7,050)	15	255	373
Attributable to:						
Equity holders of the parent		816	(7,050)	15	250	429
Minority interests		(2)	–	–	5	(56)
		814	(7,050)	15	255	373

Consolidated Balance Sheet

	Notes	30 June 2006 RMB'000	31 December 2005 RMB'000	2004 RMB'000	2003 RMB'000
Non-current assets					
Property, plant and equipment	*12*	106,419	109,128	90,655	2,199
Project under development	*13*	24,235	15,794	18,779	100,310
Land use rights	*14*	26,429	26,762	32,588	33,719
Investment in subsidiary	*15*	–	–	3,489	–
		157,083	151,684	145,511	136,228
Current assets					
Inventories	*16*	2,447	1,262	515	1,026
Trade debtors	*17*	607	1,355	781	103
Other debtors		590	262	253	710
Prepayments and deposits		963	1,768	814	170
Bank balances and cash		13,726	3,481	500	469
		18,333	8,128	2,863	2,478
Current liabilities					
Trade creditors	*18*	7,673	14,831	12,122	5,742
Accrued charges		354	960	2,448	1,934
Other creditors		4,704	2,762	1,606	993
Taxation payable		1,744	2,087	894	168
Short term bank loan	*19*	33,000	8,500	3,000	–
Loan from shareholder	*20*	5,500	5,500	5,500	–
Other loan – current portion	*21*	5,581	5,134	5,080	5,080
		58,556	39,774	30,650	13,917
Net current liabilities		(40,223)	(31,646)	(27,787)	(11,439)
Total assets less current liabilities		116,860	120,038	117,724	124,789
Non-current liabilities					
Other loan	*21*	33,487	36,920	36,920	36,920
		83,373	83,118	80,804	87,869
Capital and reserves					
Paid up capital	*22*	61,880	61,880	61,880	61,880
Reserves		19,990	19,740	18,924	25,989
Equity attributable to equity holders of the Company		81,870	81,620	80,804	87,869
Minority interests		1,503	1,498	–	–
Total equity		83,373	83,118	80,804	87,869

Consolidated Statements of Changes in Equity

	Attributable to equity holders of the parent					
	Share capital *RMB'000*	Contribution from shareholder *RMB'000*	Retained profits (Deficit) *RMB'000*	Total *RMB'000*	Minority interests *RMB'000*	Total *RMB'000*
At 1 January 2003	10,680	25,974	–	36,654	–	36,654
Capital injection	51,200	–	–	51,200	–	51,200
Profit for the year	–	–	15	15	–	15
At 31 December 2003 and at 1 January 2004	61,880	25,974	15	87,869	–	87,869
Loss for the year	–	–	(7,050)	(7,050)	–	(7,050)
Dividend	–	–	(15)	(15)	–	(15)
At 31 December 2004 and at 1 January 2005	61,880	25,974	(7,050)	80,804	–	80,804
Acquisition of subsidiary	–	–	–	–	1,500	1,500
Profit for the year	–	–	816	816	(2)	814
At 31 December 2005 and at 1 January 2006	61,880	25,974	(6,234)	81,620	1,498	83,118
Profit for the period	–	–	250	250	5	255
At 30 June 2006	61,880	25,974	(5,984)	81,870	1,503	83,373
At 1 January 2005	61,880	25,974	(7,050)	80,804	–	80,804
Contribution from minority interests	–	–	–	–	1,500	1,500
Profit for the period	–	–	429	429	(56)	373
At 30 June 2005	61,880	25,974	(6,621)	81,223	1,444	82,677

** Contribution from shareholder represents revaluation reserve arose from revaluation of the Company's assets and liabilities as at 31 August 2003.

Consolidated Cash Flow Statement

	For the year ended 31 December			For the six months ended 30 June	
	2005	**2004**	**2003**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Profit (loss) before taxation	1,215	(6,708)	18	376	373
Interest income	–	–	–	–	–
Finance costs	1,323	940	979	834	613
Depreciation and amortization	6,145	3,953	58	3,340	2,165
Loss on disposal of fixed assets	2,411	19	–	–	–
Interest income	(7)	–	–	(5)	(1)
Contribution from shareholders	–	–	25,974	–	–
Impairment loss	(13)	7,453	–	–	–
Operating profit before working capital changes	11,074	5,657	27,029	4,545	3,150
Increase in inventories	(747)	511	(1,026)	(1,185)	(1,096)
Increase in trade debtors	(574)	(678)	(103)	748	(1)
Increase in other debtors	(9)	457	(710)	(378)	(253)
Increase in prepayment and deposits	(954)	(644)	(170)	805	460
Increase in trade creditors	2,709	6,380	5,742	(7,158)	(4,069)
Increase in accrued charges	(1,488)	514	1,934	(606)	(1,580)
Increase in other creditors	1,156	613	993	1,992	260
Increase in taxation payable	1,193	726	168	(343)	224
Cash generated from (used in) operations	12,360	13,536	33,857	(1,580)	(2,905)
Interest received	7	–	–	5	1
Interest paid	(1,323)	(940)	(979)	(834)	(613)
Tax paid	(401)	(342)	(3)	(121)	
Dividend paid	–	(15)	–	–	–
Net cash inflow (outflow) from operating activities	10,643	12,239	32,875	(2,530)	(3,517)
Cash flow from investing activities					
Proceed from disposal of land use rights	2,520	–	–	–	2,520
Investment in subsidiaries	3,500	(3,500)	–	–	3,500
Land use rights	–	–	(33,719)	–	–
Purchase of fixed assets	(5,643)	(272)	(2,257)	(298)	(1,104)
Project under development	(15,093)	(16,936)	(100,310)	(8,441)	–

	For the year ended 31 December			For the six months ended 30 June	
	2005	2004	2003	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Net cash (outflow) inflow from investing activities	(14,716)	(20,708)	136,286	(8,739)	4,916
Financing activities					
Raising of other loan	54	–	42,000	–	–
Contribution from minority interest	1,500	–	–	–	1,500
Repayment of other loan	–	–	–	(2,986)	(1,000)
Raising of bank loans	5,500	3,000	48,250	24,500	–
Repayment of bank loans	–	–	(48,250)	–	
Loan from shareholder	–	5,500	–	–	–
Capital injection	–	–	61,880	–	–
Net cash inflow from financing activities	7,054	8,500	103,880	21,514	500
Increase in cash and cash equivalents	2,981	31	469	10,245	1,899
Cash and cash equivalents at beginning of the year/period	500	469	–	3,481	500
Cash and cash equivalents at end of the year/period	3,481	500	469	13,726	2,399
Cash and cash equivalents at end of the year/period,					
Represented by:					
Bank balances and cash	3,481	500	469	13,726	2,399
	3,481	500	469	13,726	2,399

II. NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company was incorporated in the PRC on 11 October 1999 with limited liability.

There are two co-operative parties to Changde Huayou, namely 中國華油集團公司 (China Huayou Group Corporation*), a company established in the PRC and 常德國有資產管理公司 (Changde State-owned Asset Operation Management Company*), a company established in the PRC. The registered office and place of address of the Company is located at No. 268 Dongting Road, Changdeng City, Hunan Province, PRC.

The Company and its subsidiary (the "Group") are principally engaged in the business of gas pipeline design, the supply, development and management of natural gas distribution facilities in the PRC.

The financial statements are presented in Renminbi dollars which is the same as functional currency of the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The Financial Information set out in this report has been prepared under the historical cost convention and in accordance with accounting principals generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards issued by HKICPA.

Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries made up to the end of Relevant Periods.

Subsidiaries

Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated.

Unrealized losses are also eliminated but considered an impairment indicator of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Revenue recognition

(i) Gas sales – based on gas consumption derived from meter readings.

(ii) Bottle liquefied gas sales – upon delivery of bottle liquefied gas to the customers.

(iii) Installation sales – upon completion of installation work.

(iv) Maintenance and service charges – when services are provided and invoiced.

(v) Interest income – recognized on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Impairment of assets

An assessment is made at each balance sheet date, of whether there is any indication of impairment of any asset, or whether there is an indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the assets recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization), had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is credited to the income statement in the period in which it arises.

Income tax

Income tax comprises current and deferred tax. Income tax is recognized in the income statement or in equity if it related to items that are recognized in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bring the assets to is working condition and location for its intended use. Expenditure incurred after the 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 asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purposes are as follows:

Leasehold buildings	3-4%
Office equipment	7%-24%
Plant and machinery	3%-12%
Motor vehicles	12%

The gain or loss on disposal or retirement of a property, plant and equipment recognized in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Cash and cash equivalents

For the purpose of the cash flow statements, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restrict to use 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 balance sheet, cash and cash equivalents comprised cash on hand and at banks, including term deposits, which are not restricted as to use.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charges to the income statement on the straight-line basis over the lease terms.

Foreign currency translation

Transactions in currencies other than the functional currency of the Group are recorded in its functional currency at the applicable exchange rates ruling at the transaction dates. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the income statement.

Employee benefits

The employees of the Group that operate in the People's Republic of China (the "PRC") are required to participate in central pension scheme operated by the local municipal government. They are required to contribute certain percentage of their covered payroll to the central pension scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the Group. The only obligation of the Group with respect to the central pension scheme is to meet the required contributions under the scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

All borrowing costs are expensed when they are incurred.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost comprises the cost of purchase by using the first-in, first out method. Net realizable value is determined by reference to the sales proceeds of items sold in the ordinary course of business after the balance sheet date, and in other cases, to management estimated based on prevailing market condition.

Provisions

Provisions are recognized when the Group has present legal or constructive obligation as a result of past event, it is probable that an outflow of resources will be required to settle the obligations, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

Project under development

Project under development are stated at cost less any identified impairment losses. Cost of project under development comprises its purchase price of materials, construction costs and any directly attributable cost of bring the project to its working condition and location for its intended use.

Land use rights

Land use rights are stated at cost less amortization and any identified impairment losses. Amortization of land use rights commences when the leasehold building and equipment are available put into use.

Financial instruments

Financial assets and financial liabilities are recognized on the balance sheet when an 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 financial assets at fair value through profit or loss, loans and receivables. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, deposits and loan receivables) are carried at amortized cost using the effective interest method, less any identified impairment losses. An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognized, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities and equity

Financial liabilities and equity instruments issued by an 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 Company after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

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

Equity instruments

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

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the entity's accounting policies which are described in Note 2, 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.

(a) 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.

(b) Recognition of property, plant and equipment from project under development

The Group assesses the completion stage of project under development periodically. And then transfer the corresponding cost of project under development to property, plant and equipment if the asset is intended to put into use.

(c) Fair value

The fair value of bank balances and cash, prepayments and deposits, trade debtors, trade creditors, accrued liabilities and bank borrowings are not materially different from there carrying amounts because of the short maturities of these instruments.

4. FINANCIAL RISK FACTORS

The Group's major financial instruments include trade debtors, deposits and prepayments, bank balances and cash, trade creditors, accrued charges 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.

(a) Business risk

The operations of natural gas industry are substantially influenced by global political and economic development. Accidents, wars, natural disasters, etc. may have material impact on Changde Huayou or the industry as a whole. In addition, Changde Huayou conducts its principal operations in the PRC and accordingly us subject to special consideration and significant risks including political, economic and legal environment, and influence of the PRC government.

(b) Foreign exchange risk

The Group operates in the PRC with the transactions settled in RMB principally and did not have any significant exposure to foreign exchange risk.

(c) Credit risk

The Group has no significant concentrations of credit risk. The Group has credit policy to handle credit risk of customers. There is no significant concentration of sale to individual customer. Furthermore, advance payments are required for providing services to the customers.

(d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the management aims to maintain flexibility in funding by keeping adequate credit lines available.

(e) Interest rate risk

The Group's interest-rate risk arises from long-term borrowings. Borrowings issued at floating rates expose the Group to cash flow interest-rate risk. At the end of each Relevant Periods, the Group's borrowings were at floating rates and denominated primarily in Renminbi ("RMB").

5. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the business of gas pipeline design, the supply, development and management of natural gas distribution facilities in the PRC. The revenue comprises the following:

	For the year ended 31 December			For the six months ended 30 June	
	2005	**2004**	**2003**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Gas sales	22,240	12,161	1,667	14,055	11,185
Installation fee	16,285	10,794	2,838	7,742	4,257
	38,525	22,955	4,505	21,797	15,442

Business segments

During the Relevant Periods, the Group is principally engaged in the business of gas pipeline design, the supply, development and management of natural gas distribution facilities in the PRC. The directors consider that the Company operates within a single business segment. Accordingly, no business segmental information is prepared by the Company.

Geographical segments

All of the activities of the Group are based in the PRC and all of the Group's turnover and profit (loss) before taxation are derived from the PRC. In addition, the Group's assets are located in the PRC.

6. OTHER REVENUE

	For the year ended 31 December			For the six months ended 30 June	
	2005	**2004**	**2003**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB000*	*RMB000*	*RMB'000*
Maintenance and sales of equipment	420	418	141	202	159
Rental income	886	241	–	206	758
Bank interest received	7	–	–	5	1
Sundry income	161	94	22	53	42
	1,474	753	163	466	960

7. FINANCE COSTS

	For the year ended 31 December			For the six months ended 30 June	
	2005	**2004**	**2003**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest on:					
– borrowings wholly repayable within five years	1,323	940	979	834	613

8. STAFF COSTS

	For the year ended 31 December			For the six months ended 30 June	
	2005	**2004**	**2003**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Salaries and other benefits	1,556	1,012	716	743	402

9. PROFIT (LOSS) BEFORE TAXATION

	For the year ended 31 December			For the six months ended 30 June	
	2005	**2004**	**2003**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Profit (loss) before taxation has been arrived at after charging (crediting):					
Cost of inventories sold	23,326	13,994	1,800	15,278	10,836
Auditors' remuneration	27	34	–	–	–
Depreciation	5,230	2,822	58	3,007	2,165
Amortization	915	1,131	–	333	179
Loss on disposal of fixed assets	20	19	–	–	–
Impairment loss on project under development	(2)	7,442	–	–	–
Staff cost:					
– Wages and salaries	1,556	1,012	716	743	402
Loss on disposal of land use rights	2,391	–	–	–	–
and after crediting:					
Interest income	7	–	–	5	1

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

	For the year ended 31 December			For the six months ended 30 June	
	2005	**2004**	**2003**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Directors' fee	–	–	–	–	–
Other emoluments:					
Salaries and other benefits:					
夏崇仁 (Xia Chong Ren)	200	125	18	55	100

Employees' emoluments

The five individuals whose emoluments were the highest in the Group are as follows:

	For the year ended 31 December			For the six months ended 30 June	
	2005	**2004**	**2003**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Directors	200	125	18	55	100
Senior management	265	225	31	99	133

Details of remuneration to the highest paid individuals who are not directors of the Group are as follows:

	For the year ended 31 December			For the six months ended 30 June	
	2005	**2004**	**2003**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Salaries and other benefits	265	225	31	99	133
Number of highest paid employees were less than HK$1,000,000	4	4	4	4	4

11. INCOME TAX EXPENSES

	For the year ended 31 December			For the six months ended 30 June	
	2005	**2004**	**2003**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
PRC Profits Tax					
Current year/period	401	342	3	121	–

Profits Tax in the PRC is calculated at 33% on the estimated assessable profit for the year/period.

The taxation for the year/period can be reconciled to the profit (loss) before taxation per the income statement as follows:

	For the year ended 31 March			For the nine months ended 31 December	
	2005	**2004**	**2003**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Profit (loss) before taxation	1,215	(6,708)	18	376	373
Taxation in the domestic income tax rate	401	(2,213)	6	124	123
Tax effect of expenses not deductible for tax purposes	1	2,555	–	–	–
Tax effect of income not taxable for tax purposes	(1)	–	(3)	(3)	(123)
Tax charge	401	342	3	121	–

As at the end of each of Relevant Periods, the Group had no material unprovided deferred tax.

12. PROPERTY, PLANT AND EQUIPMENT

(a) Movement

	Leasehold buildings	**Plant and machinery**	**Motor vehicles**	**Office equipment**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST					
Additions and at 31 December 2003	689	–	940	628	2,257
DEPRECIATION					
Charged for the period and at 31 December 2003	8	–	29	21	58
NET BOOK VALUES					
At 31 December 2003	681	–	911	607	2,199

	Leasehold buildings *RMB'000*	**Plant and machinery** *RMB'000*	**Motor vehicles** *RMB'000*	**Other equipment** *RMB'000*	**Total** *RMB'000*
COST					
At 1 January 2004	689	–	940	628	2,257
Additions	–	–	153	119	272
Transfer from project under development	24,369	35,787	–	30,869	91,025
Disposal	–	–	(46)	–	(46)
At 31 December 2004	25,058	35,787	1,047	31,616	93,508
DEPRECIATION					
At 1 January 2004	8	–	29	21	58
Charged for the year	448	1,360	121	893	2,822
Eliminated on disposal	–	–	(27)	–	(27)
At 31 December 2004	456	1,360	123	914	2,853
NET BOOK VALUES					
At 31 December 2004	24,602	34,427	924	30,702	90,655

	Leasehold buildings *RMB'000*	**Plant and machinery** *RMB'000*	**Motor vehicles** *RMB'000*	**Other equipment** *RMB'000*	**Total** *RMB'000*
COST					
At 1 January 2005	25,058	35,787	1,047	31,616	93,508
Additions	121	1,829	219	3,474	5,643
Transfer from project under development	417	19,577	–	–	19,994
Transfer back to project under development	(1,914)	–	–	–	(1,914)
Disposal	–	–	(100)	(10)	(110)
At 31 December 2005	23,682	57,193	1,166	35,080	117,121
DEPRECIATION					
At 1 January 2005	456	1,360	123	914	2,853
Charged for the year	743	1,818	244	2,425	5,230
Eliminated on disposal	–	–	(90)	–	(90)
At 31 December 2005	1,199	3,178	277	3,339	7,993
NET BOOK VALUES					
At 31 December 2005	22,483	54,015	889	31,741	109,128

	Leasehold buildings *RMB'000*	Plant and machinery *RMB'000*	Motor vehicles *RMB'000*	Other equipment *RMB'000*	Total *RMB'000*
COST					
At 1 January 2006	23,682	57,193	1,166	35,080	117,121
Additions	–	–	208	90	298
At 30 June 2006	23,682	57,193	1,374	35,170	117,419
DEPRECIATION					
At 1 January 2006	1,199	3,178	277	3,339	7,993
Charged for the period	433	1,363	121	1,090	3,007
At 30 June 2006	1,632	4,541	398	4,429	11,000
NET BOOK VALUES					
At 30 June 2006	22,050	52,652	976	30,741	106,419

13. PROJECT UNDER DEVELOPMENT

	At 30 June	At 31 December		
	2006	2005	2004	2003
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance b/f	15,794	18,779	100,310	–
Additions	8,441	15,093	16,936	100,310
Transfer from property, plant and equipment	–	1,914	–	–
Transferred to property, plant and equipment	–	(19,994)	(91,025)	–
Impairment loss	–	2	(7,442)	–
Balance c/f	24,235	15,794	18,779	100,310

Project under development represent construction work for gas pipeline network in Changde, Hunan, the PRC.

14. LAND USE RIGHTS

	At 30 June	At 31 December		
	2006	2005	2004	2003
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance b/f	26,762	32,588	33,719	–
Additions	–	–	–	33,719
Disposal	–	(4,911)	–	–
Amortization	(333)	(915)	(1,131)	–
Balance c/f	26,429	26,762	32,588	33,719

Land use rights represent leasehold land acquired in the PRC for build up of pipeline network and leasehold buildings. The land are held on medium term leases and amortized by using straight-line method on 30 years.

15. INVESTMENT IN SUBSIDIARY

	At 30 June	At 31 December		
	2006	2005	2004	2003
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unlisted shares, at costs	–	–	3,500	–
Less: Impairment loss	–	–	(11)	–
	–	–	3,489	–

Particulars of the investment of the Company are as follows:

Name of company	Place of incorporation/ operation	Particulars of issued and paid up capital	Proportion of equity interest held directly	Principal activities
臨澧華油燃氣有限公司 (Linli Huayou Gas Co. Ltd*)	PRC	RMB5,000,000	70%	Natural gas distribution

The subsidiary was incorporated on 26 October 2004. Consolidated financial statements for the year ended 31 December 2004 has not been prepared, as the management considered that there was no real values for preparing of the consolidated financial statements.

16. INVENTORIES

	At 30 June	At 31 December		
	2006	2005	2004	2003
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trading goods	2,447	1,262	515	1,026

At the respective balance sheet dates, no inventories were stated at net realized values.

17. TRADE DEBTORS

	At 30 June	At 31 December		
	2006	2005	2004	2003
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade debtors	1,007	1,755	1,061	103
Less: Provision for doubtful debts	(400)	(400)	(280)	–
	607	1,355	781	103

The following is an aged analysis of trade debtors at the respective balance dates:

	At 30 June	At 31 December		
	2006	**2005**	**2004**	**2003**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Age:				
Under one year	537	1,285	591	103
1 to 2 years	–	–	470	–
Over 2 years	470	470	–	–
	1,007	1,755	1,061	103

18. TRADE CREDITORS

	At 30 June	At 31 December		
	2006	**2005**	**2004**	**2003**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade creditors	7,673	14,831	12,122	5,742

The following is an aged analysis of trade debtors at the respective balance dates:

	At 30 June	At 31 December		
	2006	**2005**	**2004**	**2003**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Age:				
Under one year	6,445	13,603	10,409	5,742
1 to 2 years	–	–	1,713	–
Over 2 years	1,228	1,228	–	–
	7,673	14,831	12,122	5,742

19. SHORT TERM BANK LOAN

(a) Short term loan of the Group which are analysed as follows:

	At 30 June	At 31 December		
	2006	**2005**	**2004**	**2003**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank loan, secured	33,000	8,500	3,000	–

(b) The Group' short term bank loan were repayable as follows:

	At 30 June		At 31 December	
	2006	**2005**	**2004**	**2003**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank borrowings:				
Within one years	33,000	8,500	3,000	–

i. Short term bank loan are secured by project under development of the Group and corporate guarantee given by the shareholder.

ii. Short term bank loan are secured, interest charged at prevailing interest rate and have fixed repayment term.

20. LOAN FROM SHAREHOLDER

	At 30 June		At 31 December	
	2006	**2005**	**2004**	**2003**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
中國華油集團公司 (China Huayou Group Corporation*)	5,500	5,500	5,500	–

The Group's loan from shareholder was repayable as follows:

	At 30 June		At 31 December	
	2006	**2005**	**2004**	**2003**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Loan from shareholder:				
Within one year	5,500	5,500	5,500	–

The loan is unsecured, interest charged at 5.31% per annum and has fixed repayment term.

21. OTHER LOAN

(a) Other loan of the Group which are analysed as follows:

	At 30 June		At 31 December	
	2006	**2005**	**2004**	**2003**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
中國常德市財政局 (Finance Bureau of Changde City of the PRC*)	39,068	42,054	42,000	42,000

(b) The Group's other loan were repayable as follows:

	At 30 June	At 31 December		
	2006	**2005**	**2004**	**2003**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other loan:				
Within one year	5,581	5,134	5,080	5,080
One to two years	5,080	5,080	5,080	5,080
Two to five years	15,240	15,240	15,240	15,240
Over five years	13,167	16,600	16,600	16,600
	39,068	42,054	42,000	42,000

Other loan is unsecured, interest charged at prevailing interest rate and has fixed repayment terms.

22. PAID UP CAPITAL

	At 30 June	At 31 December		
	2006	**2005**	**2004**	**2003**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Registered share capital and paid up capital	61,880	61,880	61,880	61,880

At incorporation, registered capital of the Company was RMB10,680,000. At a general meeting of shareholders held on 12 November 2003, the registered capital was increased from RMB10,680,000 to RMB61,880,000 to provide additional capital to the Company.

23. COMMITMENTS

The Group had no significant operating lease commitments and capital commitments at 30 June 2006.

24. CONTINGENT LIABILITIES

The Group had no significant contingent liabilities at 30 June 2006.

* *For identification purpose only*

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group in respect of any period subsequent to 30 June 2006. In addition, no dividend or distribution has been declared, made or paid by the Group in respect of any period subsequent to 30 June 2006.

The following is the text of a report, prepared for inclusion in this circular, received from W.H. Tang & Partners CPA Limited, the independent reporting accountants.

鄧偉雄會計師事務所有限公司

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W.H. TANG & PARTNERS CPA LIMITED

19 October 2006

The Directors
China Vanguard Group Limited
30th Floor
Sunshine Plaza
No. 353 Lockhart Road
Wanchai
Hong Kong

Dear Sirs,

We set out below our report on the financial information relating to 湖南華油天然氣輸配有限責任公司 (Hunan Huayou Natural Gas Transportation & Distribution Company Limited*), a company incorporated in the People's Republic of China ("PRC") with limited liability on 22 April 2005 ("Hunan Huayou") for each of the period from 22 April 2005 (date of incorporation) to 31 December 2005 and the period from 1 January 2006 to 30 June 2006 (hereafter collectively referred to as the "Relevant Periods") for inclusion in the circular of China Vanguard Group Limited (the "Company") dated 19 October 2006 (the "Circular"), in connection with the investment of an aggregate of 33% equity interest in Hunan Huayou.

Hunan Huayou is principally engaged in the construction of a main gas pipeline extending from Changsha City, PRC to Changde City, PRC.

The financial statements of Hunan Huayou for the period from 22 April 2005 (date of incorporation) to 31 December 2005 has been prepared in accounting with accounting principles generally accepted in the PRC and audited by a CPA firm in PRC. We have also carried out independent audit procedures with reference to Hong Kong Standards on Auditing ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") on the financial statements for this period.

No audited financial statements have been prepared by Hunan Huayou for the six months ended 30 June 2006. For the purpose of this report, we have, however, carried out independent audit procedures with reference to Hong Kong Standards on Auditing issued by the HKICPA on the management accounts of Hunan Huayou for the six months ended 30 June 2006.

The financial information as set out on pages 104 to 115 ("Financial Information") has been prepared based on the audited financial statements and management accounts, where appropriate, of Hunan Huayou for the Relevant Periods. For the purposes of this report, we have examined the Financial Information and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The directors of Hunan Huayou are responsible for preparing the Financial Information which gives a true and fair view. In preparing the Financial Information, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information for the purpose of this report gives a true and fair view of the state of affairs of Hunan Huayou as at 31 December 2005 and 30 June 2006, and of the results and cash flows of Hunan Huayou for the Relevant Periods.

Yours faithfully,
W.H. Tang & Partners CPA Limited
Certified Public Accountants
Hong Kong

I. FINANCIAL INFORMATION

(a) Income Statement

	Notes	1-1-2006 to 30-6-2006 RMB'000	22-4-2005 to 31-12-2005 RMB'000
Revenue	5	–	–
Administrative expenses		–	(69)
Loss before taxation	6	–	(69)
Income tax expenses	7	–	–
Net loss for the period		–	(69)

(b) Balance Sheet

	Notes	30-6-2006 RMB'000	31-12-2005 RMB'000
Non-current assets			
Property, plant and equipment	8	2,189	2,349
Project under development	9	202,967	128,419
		205,156	130,768
Current assets			
Trade debtors	10	–	4
Deposits and prepayments		73,785	30,474
Amounts due from fellow subsidiaries	11	13,940	41,639
Bank balances and cash		53,676	2,395
		141,401	74,512
Current liabilities			
Trade creditors	12	1,904	438
Accrued charges		1,833	964
Amount due to fellow subsidiary	13	21,945	52,977
Amount due to shareholder	14	944	944
Other payables		–	26
		26,626	55,349
Net current assets		114,775	19,163
		319,931	149,931
Capital and reserves			
Paid up capital	15	100,000	100,000
Accumulated losses		(69)	(69)
		99,931	99,931
Non-current liabilities			
Bank borrowings	16	220,000	50,000
		319,931	149,931

(c) Statements of Changes in Equity

	Share capital	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*
At 22 April 2005	–	–	–
Capital injection	100,000	–	100,000
Loss for the period	–	(69)	(69)
At 31 December 2005 and at 1 January 2006	100,000	(69)	99,931
Loss for the period	–	–	–
At 30 June 2006	100,000	(69)	99,931

(d) Cash Flow Statement

	1-1-2006 to 30-6-2006 *RMB'000*	22-4-2005 to 31-12-2005 *RMB'000*
Operating activities		
Loss before taxation	–	(69)
Operating loss before working capital changes	–	(69)
Decrease (Increase) in trade debtors	4	(4)
Increase in deposits and prepayments	(43,311)	(30,474)
Increase in trade creditors	1,466	438
Increase in accrued charges	869	964
(Decrease) Increase in other payables	(26)	26
Cash used in operations and net cash outflows from operating activities	(40,998)	(29,119)
Investing activities		
Purchases of property, plant and equipment	–	(2,470)
Capitalize of depreciation in project under development	160	121
Increase in project under development	(74,548)	(128,419)
Net cash outflow from investing activities	(74,388)	(130,768)
Financing activities		
Raising of bank loan	170,000	50,000
Injection of capital	–	100,000
Amounts due from fellow subsidiaries	27,699	(41,639)
Amount due to fellow subsidiaries	(31,032)	52,977
Amount due to shareholder	–	944
Net cash inflow from financing activities	166,667	162,282
Increase in cash and cash equivalents	51,281	2,395
Cash and cash equivalents at 1 January/22 April	2,395	–
Cash and cash equivalents at 30 June/31 December	53,676	2,395
Cash and cash equivalents at 30 June/31 December represented by		
Bank balances and cash	53,676	2,395

II. NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company was incorporated in the PRC on 22 April 2005 with limited liability.

There are two co-operative parties to Hunan Huayou, namely 中國華油集團公司 (China Huayou Group Corporation*), a company established in the PRC and 北京新華聯燃氣投資有限公司 (Beijing Xin Hua Lian Gas Investment Co. Ltd*), a company incorporated in the PRC. The registered office and place of address of the Company is located at No. 268 Dongting Road, Changdeng City, Hunan Province, PRC.

The Company is principally engaged in the construction of a main gas pipeline extending from Changsha City, PRC to Changda City, PRC.

The financial statements are presented in Renminbi dollars which is the same as functional currency of the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The Financial Information set out in this report has been prepared under the historical cost convention and in accordance with accounting principals generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards issued by HKICPA.

Impairment of assets

An assessment is made at each balance sheet date, of whether there is any indication of impairment of any asset, or whether there is an indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the assets recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization), had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is credited to the income statement in the period in which it arises.

Income tax

Income tax comprises current and deferred tax. Income tax is recognized in the income statement or in equity if it related to items that are recognized in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Cash and cash equivalents

For the purpose of the cash flow statements, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restrict to use 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 Company's cash management.

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

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Property, plant and equipment

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

The cost of an asset comprises its purchase price and any directly attributable costs of bring the assets to its working condition and location for its intended use. Expenditure incurred after the 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 asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purposes are as follows:

Computer equipment	25%
Office equipment	20%
Motor vehicles	12.5%

Project under development

Project under development are stated at cost less any identified impairment losses, if any. Cost of project under development comprises its purchase price of materials, construction costs and any directly attributable cost of bring the project to its working condition and location for its intended use. Depreciation of assets commences when they are available for use (i.e. when they are in the location and condition necessary for them to capable of operating in the manner intended by management).

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charges to the income statement on the straight-line basis over the lease terms.

Employee benefits

The employees of the Company that operates in the People's Republic of China (the "PRC") are required to participate in central pension scheme operated by the local municipal government. It is required to contribute certain percentage of their covered payroll to the central pension scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the Company. The only obligation of the Company with respect to the central pension scheme is to meet the required contributions under the scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an qualifying assets, are capitalized as part of the cost of those assets. Capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Provisions

Provisions are recognized when the Company has present legal or constructive obligation as a result of past event, it is probable that an outflow of resources will be required to settle the obligations, and a reliable estimate of the amount can be made. Where the Company expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

Foreign currency translation

Transactions in currencies other than the functional currency of the Company are recorded in its functional currency at the applicable exchange rates ruling at the transaction dates. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the income statement.

Financial instruments

Financial assets and financial liabilities are recognized on the balance sheet when an 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 Company's financial assets are classified into one of the two categories, including financial assets at fair value through profit or loss, loans and receivables. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, deposits and loan receivables) are carried at amortized cost using the effective interest method, less any identified impairment losses. An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognized, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities and equity

Financial liabilities and equity instruments issued by an 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 Company after deducting all of its liabilities. The Company's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

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

Equity instruments

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

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the entity's accounting policies which are described in Note 2, 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.

(a) 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 Company 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.

(b) Fair value

The fair value of bank balances and cash, prepayments, deposits, trade debtors, trade creditors, accrued liabilities and bank borrowings are not materially different from there carrying amounts because of the short maturities of these instruments.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's major financial instruments include trade debtors, deposits and prepayments, bank balances and cash, trade creditors, accrued charges 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.

(a) Business risk

The operations of natural gas industry are substantially influenced by global political and economic development. Accidents, wars, natural disasters, etc. may have material impact on Hunan Huayou or the industry as a whole. In addition, Hunan Huayou conducts its principal operations in the PRC and accordingly us subject to special consideration and significant risks including political, economic and legal environment, and influence of the PRC government.

(b) Foreign currency risk

The Company operates in the PRC with the transactions settled in RMB principally and did not have any significant exposure to foreign exchange risk.

(c) Interest rate risk

The Company's fair value interest rate risk related primarily to the Company's bank borrowings. The Company exposure to interest rate risk is subject to the change of interest rate in the market.

5. REVENUE AND SEGMENT INFORMATION

The Company did not have any business revenue during the Relevant Periods.

Business segments

As the Company did not have any business revenue, no business segmental information is prepared by the Company.

Geographical segments

All of the activities of the Company are based in the PRC and all of the Company's loss before taxation is wholly derived from the PRC. In addition, the Company's assets are located in the PRC.

6. LOSS FROM OPERATIONS

	1-1-2006 to 30-6-2006 *RMB'000*	**22-4-2005 to 31-12-2005** *RMB'000*
Loss before taxation has been arrived at after charging:		
Formation fee	–	69

7. INCOME TAX EXPENSES

As the Company is a tax loss for the Relevant Periods, provision for taxation is considered not necessary.

Income tax expenses for the period can be reconciled to the loss before taxation per the income statement as follows:

	1-1-2006 to 30-6-2006 *RMB'000*	**22-4-2005 to 31-12-2005** *RMB'000*
Loss before taxation	–	(69)
Taxation in the domestic income tax rate	–	(23)
Tax effect of utilization of tax losses not previously recognized	–	23
	–	–

As at the end of each of Relevant Periods, the Company had no material unprovided deferred tax.

8. PROPERTY, PLANT AND EQUIPMENT

	Computer equipment *RMB'000*	Office equipment *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
COST				
Additions and at 31 December 2005	114	89	2,267	2,470
DEPRECIATION				
Charged for the period and at 31 December 2005	11	11	99	121
NET BOOK VALUES				
At 31 December 2005	103	78	2,168	2,349
COST				
At 1 January 2006 and at 30 June 2006	114	89	2,267	2,470
DEPRECIATION				
At 1 January 2006	11	11	99	121
Charged for the period	16	9	135	160
At 30 June 2006	27	20	234	281
NET BOOK VALUES				
At 30 June 2006	87	69	2,033	2,189

9. PROJECT UNDER DEVELOPMENT

	As at 30-6-2006 *RMB'000*	As at 31-12-2005 *RMB'000*
Balance b/f	128,419	–
Additions	74,548	128,419
Balance c/f	202,967	128,419

Project under development represent the development and construction of main gas pipeline from Changsha City to Changda City, Hunan, PRC. The project is divided into 5 sectors and the total length of gas pipe under construction is approximately 182 kilometer.

During the Relevant Periods, the following expenses were capitalized into project under development:

	1-1-2006 to 30-6-2006 *RMB'000*	22-4-2005 to 31-12-2005 *RMB'000*
Finance cost:		
Interest on long term bank loan	3,749	727
Depreciation	160	121
Staff costs	1,046	1,164
Interest income	(127)	(208)

Directors' emoluments

Details of the emoluments paid to the Directors of the company are as follows:

	1-1-2006 to 30-6-2006 *RMB'000*	22-4-2005 to 31-12-2005 *RMB'000*
Fees	–	–
Salaries and allowances	24	32
	24	32

Employees' emoluments

The five individuals whose emoluments were the highest in the Company are as follows:

	1-1-2006 to 30-6-2006 *RMB'000*	22-4-2005 to 31-12-2005 *RMB'000*
Director	24	32
Senior management	51	68
	75	100
Number of highest paid employees were less than RMB1,000,000	5	5

10. TRADE DEBTORS

	As at 30-6-2006 *RMB'000*	As at 31-12-2005 *RMB'000*
Trade debtors	–	4

The following is an aged analysis of trade debtors at the respective balance dates:

	As at 30-6-2006 *RMB'000*	As at 31-12-2005 *RMB'000*
Age:		
Under one year	–	4

11. AMOUNTS DUE FROM FELLOW SUBSIDIARIES

	As at 30-6-2006 *RMB'000*	As at 31-12-2005 *RMB'000*
華油實業開發總公司 (Huayou Industrial Development Co.*)	13,686	41,385
常德華油燃氣有限公司 (Changde Huayou Gas Co. Ltd*)	254	254
	13,940	41,639

The amounts are unsecured, interest and arisen from normal course of business.

12. TRADE CREDITORS

	As at 30-6-2006 *RMB'000*	As at 31-12-2005 *RMB'000*
Trade creditors	1,904	438

The following is an aged analysis of trade creditors at the respective balance dates:

	As at 30-6-2006 *RMB'000*	As at 31-12-2005 *RMB'000*
Age:		
Under one year	1,904	438

13. AMOUNT DUE TO FELLOW SUBSIDIARY

	As at 30-6-2006 *RMB'000*	As at 31-12-2005 *RMB'000*
華油實業開發總公司 (Huayou Industrial Development Co.*)	21,945	52,977

The amount is unsecured, interest free and arisen from normal course of business.

14. AMOUNT DUE TO SHAREHOLDER

	As at 30-6-2006 *RMB'000*	As at 31-12-2005 *RMB'000*
中國華油集團公司 (China Huayou Group Corporation*)	944	944

The amount is unsecured, interest free and has no fixed repayment term.

15. PAID UP CAPITAL

	As at 30-6-2006 *RMB'000*	As at 31-12-2005 *RMB'000*
Registered capital and paid up capital	100,000	100,000

At incorporation, registered capital of the Company was RMB10,000,000. At a general meeting of shareholders held on 10 May 2005, registered capital of the Company was increased from RMB10,000,000 to RMB100,000,000 to provide additional working capital to the Company.

16. BANK BORROWINGS

(a) Bank borrowings of the Company which are analysed as follows:

	30-6-2006	**31-12-2005**
	RMB'000	*RMB'000*
Bank loan	220,000	50,000

(b) The Company's bank borrowings were repayable as follows:

	30-6-2006	**31-12-2005**
	RMB'000	*RMB'000*
Bank borrowings repayable within:		
One year	–	–
One to two years	–	–
Two to five years	70,000	50,000
Over five years	150,000	–
	220,000	50,000

Bank loans have been secured by a charge over project under development of the Company. The average interest rate paid on bank loans during the period was charged at prevailing interest rate.

17. COMMITMENTS

The Company had no significant operating lease commitments and capital commitments at 30 June 2006.

18. CONTINGENT LIABILITIES

The Company had no significant contingent liabilities at 30 June 2006.

19. RELATED PARTY TRANSACTIONS

(a) Transaction with connected or related parties

During the Relevant Periods, the Company had the following related party transactions:

	1-1-2006 to 30-6-2006	**22-4-2005 to 31-12-2005**
	RMB'000	*RMB'000*
Purchase of materials for project under development:		
華油實業開發總公司 (Huayou Industrial Development Co.*)	52,917	30,614
Utilities expenses paid:		
常德華油燃氣有限公司 (Changde Huayou Gas Co. Ltd*)	–	213

Balances due from related parties are stated at Note 11, 13 and 14 to the financial statements.

* *For identification purpose only*

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Hunan Huayou in respect any period subsequent to 30 June 2006. In addition, no dividend or distribution has been declared, made or paid by Hunan Huayou in respect of any period subsequent to 30 June 2006.

The following is the text of a report, prepared for inclusion in this circular, received from W.H. Tang & Partners CPA Limited, the independent reporting accountants.

鄧偉雄會計師事務所有限公司

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7 Lau Li Street,
Causeway Bay, Hong Kong.

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栢景中心七樓

Tel : (852) 23426130
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W.H. TANG & PARTNERS CPA LIMITED

19 October 2006

The Directors
China Vanguard Group Limited
30th Floor
Sunshine Plaza
No. 353 Lockhart Road
Wanchai
Hong Kong

Dear Sirs,

We report on the pro forma financial statements of pro forma consolidated statement of assets and liabilities, ("Pro Forma Financial Statements") of China Vanguard Group Limited (formerly known as B & B Group Holdings Limited) (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") in connection with the acquisition of 48.33% equity interest in 常德華油燃氣有限公司 and 33% equity interest in 湖南華油天然氣輸配有限責任公司 (the "Acquisition"), which has been prepared, for illustrative purposes only, to provide information about how the Acquisition might have affected the financial information presented.

RESPONSIBILITIES

It is the responsibility solely of the Director of the Company to prepare the Pro Forma Financial Information in accordance with paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Rules").

It is our responsibility to form an opinion, as required by with paragraph 31 of Chapter 7 of the Rules of the GEM Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at that dates of their issue.

BASIS OF OPINION

We conducted our work with reference to the Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars". Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjusting and discussing the Pro Forma Financial Information with the Directors of the Company.

Our work does not constitute an audit or a review in accordance with the Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such assurance on the Pro Forma Financial Information.

The Pro Forma Financial Information has been prepared on the basis set out in Appendix IV to the Circular for illustrative purpose only and, because of its nature, it may not give a indicative financial position of the Enlarged Group at 30 June 2006 or at any future date and result and cash flows of the Enlarged Group for the period ended 30 June 2006 or any future period.

OPINION

In our opinion:

(a) the Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Rules.

Yours faithfully
W.H. Tang & Partners CPA Limited
Certified Public accountants
Hong Kong

PRO FORMA FINANCIAL INFORMATION

1. Pro Forma Consolidated Statement of Assets and Liabilities

The following table is an illustrative pro forma consolidated statement of assets and liabilities of the Enlarged Group which has been prepared on the basis set out below for the purpose of illustration as if the Acquisition had been completed on 30 June 2006.

The pro forma consolidated statement of assets and liabilities of the Enlarged Group is prepared as if the Acquisition has been commenced on 1 July 2005 and is based on the audited balance sheet of 常德華油燃氣有限公司 and 湖南華油天然氣輸配有限責任公司 as at 30 June 2006 as extracted from the accountants' report of 常德華油燃氣有限公司 and 湖南華油天然氣輸配有限責任公司 as set out in Appendices II and III to this circular, and the pro forma consolidated statement of assets and liabilities of the Group as at 30 June 2006, and after making certain pro forma adjustments as set out below.

The pro forma consolidated statement of assets and liabilities of the Enlarged Group has been prepared to provide the pro forma financial information of the Enlarged Group as if the Acquisition had been completed on 30 June 2006. As it has been prepared for illustrative purpose only and because of its nature, it may not given a true picture of the results of the Enlarged Group as at 30 June 2006 in respect of which it is prepared or for any future financial date.

Pro Forma Consolidated Statement of Assets and Liabilities

	The Group as at 30 June 2006	Pro forma adjustments		Pro forma balance
	HK$'000	*HK$'000*	*Notes*	*HK$'000*
Non-current assets				
Property, plant and equipment	17,588			17,588
Goodwill	135,061			135,061
Other intangible assets	6,586			6,586
Deposits made on acquisition of property, plant and equipment	3,756			3,756
Investment in associates	238	205,272	*1 and 3*	205,510
	163,229			368,501
Current assets				
Inventories	7,436			7,436
Trade and other receivables and prepayments	90,458			90,458
Pledged bank deposits	13,308			13,308
Bank balances and cash	244,983			244,983
	356,185			356,185
TOTAL ASSETS	519,414			724,686
Current liabilities				
Trade and other payables	30,459			30,459
Taxation	99			99
Bank borrowings – secured	12,505			12,505
	43,063			43,063
Non-current liability				
Other loan	22,500	205,153	*2*	227,653
TOTAL LIABILITIES	65,563			270,716
NET ASSETS	453,851			453,970

Notes:

1. Upon completion of the Acquisition, the Company will apply the equity method to account for the acquisition of associates in the consolidated statement of assets and liabilities of the Enlarged Group. In applying the equity method, the investments in associates is initially recognized at cost and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the acquisition date.

2. The adjustment reflects the Acquisition at the purchase price of approximately HK$205 million which will be supported by other borrowings raised by the Group to complete the Acquisition.

3. The adjustment reflects the share of profit of associates of approximately HK$119,000. As Hunan joint venture did not have any profit or loss for the period ended 30 June 2006, the share of profit was solely for sharing of profit from Changde joint venture.

The following is the text of a letter, summary of value and valuation certificate, prepared for the purpose of incorporation in this circular received from RHL Appraisal Ltd., an independent valuer, in connection with its valuation as at 31 July 2006 of the property interests held by the Enlarged Group.

永利行評值顧問有限公司 | RHL Appraisal Ltd
Surveying Practices - Corporate Valuation and Property Consultancy
License No.: C-015672

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21 August 2006

The Board of Directors
China Vanguard Group Limited
30th Floor
Sunshine Plaza
No. 353 Lockhart Road
Wanchai
Hong Kong

Dear Sirs,

Re: Valuation of property interests situated in Changde City, Hunan Province, the People's Republic of China and in Hong Kong

In accordance with the instructions from China Vanguard Group Limited (referred to as the "Company") to value the property interests (referred to as the "properties") held by Changde Huayou Gas Company Limited (referred to as "Changde Huayou") situated in Changde City, Hunan Province, the People's Republic of China (the "PRC") and the Company (Changde Huayou and the Company are altogether referred to as the "Enlarged Group"), we confirm that we have carried out inspections of the properties, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the properties as at 31 July 2006 (the "date of valuation").

BASIS OF VALUATION

Our valuation of the properties represents the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

VALUATION METHODOLOGY

The properties are valued by the comparison method where comparison based on prices realised or market prices of comparable properties is made. Comparable properties of similar size, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of capital values.

Where, due to the nature of the buildings and structures of the properties, there are no market sales comparable readily available, they have been valued on the basis of depreciated replacement costs (DRC).

DRC is defined as "an estimate of the market value on existing use of the land plus the current gross replacement (reproduction) costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimization". The underlying theory of this basis is the Market Value of the appraised property should, at least, be equivalent to the replacement cost of the remaining service potential of the appraised property i.e. the DRC of the appraised property. In the absence of known market for the property, the DRC generally furnishes the most reliable indication of value for property where it is not practicable to ascertain its value on market bases.

The valuation of the properties on the basis of DRC is on the assumption that the properties are subject to the test of adequate potential profitability of the business having due regard to the values of the total assets employed and the nature of the operation.

We have ascribed no commercial value to those land parcels as highlighted in the valuation certificate attached herewith on the ground that land use rights therein have been granted by way of administration allocation with undefined term. As advised by the PRC legal adviser to the Company, these allocated land use rights are restricted for the use of the grantee and are barred from being transferred on the market.

We have ascribed no commercial value to the property rented by the Company due to the non-assignable nature of the leasehold interest or the lack of substantial profit rent.

ASSUMPTIONS

Save for the allocated land use rights to which no commercial value is ascribed, our valuation has been made on the assumption that owners sell the properties on the market in their existing state without the benefit of deferred terms contracts, leaseback, joint ventures, management agreements or any similar arrangement which would serve to affect the value of the properties.

For those properties held by the owners by means of long term Land Use Rights granted by the Government, we have assumed that the owner has free and uninterrupted rights to use the properties for the whole of the unexpired term of the respective land use rights. We have also assumed that they can be freely transferred on the market free from any land premium or expenses of substantial amount payable to the Government.

Other special assumptions for our valuation (if any) would be stated out in the footnotes of the valuation certificate attached herewith.

TITLESHIP

We have been provided with copies of legal documents regarding the properties. However, we have not verified ownership of the properties and the existence of any encumbrances that would affect ownership of them.

We have also relied upon the legal opinion provided by Hills & Co. (廣東君道律師事務所), an independent PRC legal adviser, to the Company on the relevant laws and regulations in the PRC, on the nature of land use rights in the properties and the validity of the leasehold interest in the properties in Group II.

LIMITING CONDITIONS

No allowance has been made in our report for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value. Our valuation have been made on the assumption that the seller sells the property on the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the properties.

We have relied to a very considerable extent on the information given by the Company and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the properties but have assumed that the site areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

We have carried out inspections of the properties. However, no structural survey has been made. In the course of our inspection, we did not note any serious defects. We are unable to report whether the buildings and structures of the properties are free of rot, infestation or any other structural defects. No test was carried out on any of the services of the buildings and structures of the properties.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

In valuing the properties, we have complied with all the requirements contained in Chapter 8 of the Rules Governing the Listing of Securities on the Growth Enterprise Market and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors effective from 1 January 2005.

Unless otherwise stated, all monetary sums stated in this report are in Renminbi (RMB).

Our summary of valuation and valuation certificate are attached herewith.

Yours faithfully,
for and on behalf of
RHL Appraisal Ltd.

Tse Wai Leung	**Sandra S.W. Lau**
MFin BSc MRICS MHKIS RPS(GP)	MFin MHKIS AAPI RPS(GP)
Director	*Director*

Tse Wai Leung is a member of the Royal Institution of Chartered Surveyors, a member of The Hong Kong Institute of Surveyors, a Registered Professional Surveyor in General Practice and a qualified real estate appraiser in the PRC. Sandra S.W. Lau is a member of the Hong Kong Institute of Surveyors, an Associate of the Australian Property Institute and a Registered Professional Surveyor in General Practice. Both of them are on the list of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers of the Hong Kong Institute of Surveyors, Registered Business Valuer under the Hong Kong Business Forum and have over 10 years' experience in valuation of properties in Hong Kong, in Macau and in the PRC.

SUMMARY OF VALUATION

	Property	Market value in existing state as at 31 July 2006
		RMB
	Group I – Properties held and occupied by Changde Huayou	
1.	Land and buildings of Yanping Gas Station Yanping Village Changde City Hunan Province The PRC	9,500,000
2.	Land and buildings of Gas Storage Station Huangmuguan Changde City Hunan Province The PRC	3,950,000
3.	Land and buildings of Fuhai Gas Station Changci Road Jubao Village Hefu Town Wuling District Changde City Hunan Province The PRC	2,100,000
4.	Levels 1 to 3 of the building on No. 581 Renmin Dong Road Donghu Xiang Wuling District Changde City Hunan Province The PRC	1,650,000

	Property	Market value in existing state as at 31 July 2006
		RMB
5.	Portion of Levels 3 to 6, 8 and 9 of Control Station Dongting Avenue Central Wuling District Changde City Hunan Province The PRC	5,600,000
6.	Land and buildings of Deshan Pump Station Changsha-Changde Gas Pipeline Hunan Province The PRC	1,800,000
	Sub-total:	24,600,000
	Group II – Properties held by Changde Huayou for investment	
7.	Warehouse on Qingnian Bei Road Si Cun Wuling District Changde City Hunan Province The PRC	940,000
8.	Land and buildings of Service Station No. 581 Renmin Dong Road Donghu Xiang Wuling District Changde City Hunan Province The PRC	2,280,000

	Property	Market value in existing state as at 31 July 2006
		RMB
9.	Land and buildings of Control Station Dongting Avenue Central Wuling District Changde City Hunan Province The PRC	15,400,000
10.	Shop Nos. B-11-19 and B-11-20 on Level 1 Zhilan Estate Nanping Wuling District Changde City Hunan Province The PRC	160,000
	Sub-total:	18,780,000
	Group III – Property rented by the Company	
11.	30th Floor Sunshine Plaza No. 353 Lockhart Road Wanchai Hong Kong	No commercial value
	Grand Total:	**43,380,000**

VALUATION CERTIFICATE

Group I – Properties held and occupied by Changde Huayou

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 July 2006 *RMB*
1.	Land and buildings of Yanping Gas Station Yanping Village Changde City Hunan Province The PRC	The property comprises three parcels of contiguous land with a total area of 26,639.90 square metres on which a total of twelve single to 2-storey buildings and structures are erected. The buildings and structures have a total gross floor area of 2,666.26 square metres and were completed in 2003. They include administration building, transformer room, pump room, pressurizing plant room, compressor room, liquefied gas storage tank rooms, gas liquefying workshop, boiler room and power plant room. The land use rights in a portion of the subject land with an area of 9,818 square metres have been granted by way of administrative allocation for an undefined term whilst the land use rights in the remaining portion the subject land are held for a term expiring on 14 July 2050.	The property is currently occupied by the owner as Gas Storage Station.	9,500,000

Notes:

1. As revealed by a Land Use Right Certificate (Ref Nos. Chang Guo Yong (2005) No. 14 dated 26 January 2005, the land use rights in a portion of the subject land with an area of 9,818 square metres were granted to Changde Huayou Gas Company Limited ("Changde Huayou") by way of administrative allocation for public facility purposes for an undefined land use right term. As the aforesaid land use rights were granted by way of administrative allocation and are prohibited from being transferred on the market, we have ascribed no commercial value to this land portion of the property.

2. As revealed by two sets of Land Use Right Certificate Ghang Guo Yong (2005) No. 15 and Chang Guo Yong (2005) No. 16 all dated 26 January 2005, the land use rights of the remaining portion of the subject land parcels with a total area of 16,821.9 square metres were granted to Changde Huayou Gas Company Limited ("Changde Huayou") for industrial uses for a term of years expiring on 14 July 2050.

3. Building Ownership Certificates for the subject buildings and structures have not yet been issued. Our valuation has been made on the basis

   (i) Changde Huayou shall have no legal impediment and subject to no expenses of substantial amount for the application of building ownership certificate; and

   (ii) All buildings and structures have been constructed in accordance with relevant construction standards and regulations and are all safety in use for the designed purposes.

4. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the followings:

   (i) The land use rights in the portion of the property with an area of 9,818 square metres is held by Changde Huayou by way of administrative allocation and it is required to pay land premium to the government in order to dispose, lease or mortgage of the property;

   (ii) The land use rights in the remaining portion of the property is held by Changde Huayou for a term expiring on 14 July 2050;

   (iii) The land interests is legal, valid and protected by law;

   (iv) After completing statutory building completion examination, the Building Ownership Certificate of the property will be issued in the name of Changde Huayou.

5. The status of the title and grant of major approvals and licenses in accordance with the information provided by the Group and the opinion of the Company's legal advisers on the PRC law is as follows:

Land Use Rights Certificate:	Yes
Red-line Drawing:	Yes
Building Ownership Certificate:	Not yet applied for

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 July 2006 *RMB*
2.	Land and buildings of Gas Storage Station Huangmuguan Changde City Hunan Province The PRC	The property comprises two parcels of contiguous land with a total area of 26,073.50 square metres on which a total of four single to 2-storey buildings and structures are erected. The buildings and structures have a total gross floor area of 1,080.67 square metres and were completed in 2004. They include transformer room, administration building, transformer room, pump room and fire sprinkler valve chamber room. The land use rights of the property were granted by way of administrative allocation for an undefined term.	The property is currently occupied by the owner as Gas Storage Station.	3,950,000

Notes:

1. As revealed by two sets of Land Use Right Certificate (Ref Nos. Chang Guo Yong (2005) No. 17 and Chang Guo Yong (2005) No. 18 all dated 26 January 2005, the land use rights of the subject land parcels were granted to Changde Huayou Gas Company Limited ("Changde Huayou") for public facilities and access road uses for an undefined term.

2. Building Ownership Certificates for the subject buildings and structures have not yet been issued. Our valuation has been made on the basis

   (i) Changde Huayou shall have no legal impediment and subject to no expenses of substantial amount for the application of building ownership certificate; and

   (ii) All buildings and structures have been constructed in accordance with relevant construction standards and regulations and are all safety in use for the designed purposes.

3. As the land use rights were granted by way of administrative allocation and are prohibited from being transferred on the market, we have ascribed no commercial value to the land portions of the property.

4. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal adviser, which contains, inter alia, the followings:

   (i) The land use rights in the property is held by Changde Huayou by way of administrative allocation and it is required to pay land premium to the government in order to dispose, lease or mortgage of the property;

   (ii) The land interests is legal, valid and protected by law;

   (iii) After completing statutory building completion examination, the Building Ownership Certificate of the property will be issued in the name of Changde Huayou.

5. The status of the title and grant of major approvals and licenses in accordance with the information provided by the Group and the opinion of the Company's legal advisers on the PRC law is as follows:

Land Use Rights Certificate:	Yes
Red-line Drawing:	Yes
Building Ownership Certificate:	Not yet applied for

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 July 2006 *RMB*
3.	Land and buildings of Fuhai Gas Station Changci Road Jubao Village Hefu Town Wuling District Changde City Hunan Province The PRC	The property comprises a parcel of contiguous land with a total area of 7,246.35 square metres on which a total of seven single to 2-storey buildings and structures are erected. The buildings and structures have a total gross floor area of 966.77 square metres. They include office building, gate house, pump room, transformer room, flooding gate and commercial building. The land use rights of the property were granted for a term expiring on 5 November 2051.	The property is currently occupied by the owner as Gas Station.	2,100,000

Notes:

1. As revealed by a set of Land Use Right Certificate (Ref No. Chang Guo Yong (2005) No. 19 dated 26 January 2005, the land use rights of the subject land parcel were granted to Changde Huayou Gas Company Limited ("Changde Huayou") for industrial uses for a term expiring on 5 November 2051.

2. As revealed by six sets of Building Ownership Certificates (Ref Title: Chang Fang Chan Zheng Wu), the detail breakdown of the subject buildings and structures are as follows:

Ref No.	No. of storey	Gross floor area *(sq.m.)*	Usage
00135750	2	149.78	Office
00135752	1	140.03	Others
00135753	1	34.94	Others
00135754	1	22.22	Others
00135758	1	371.00	Industrial
00135755	2	137.00	Industrial
Total Gross Floor Area:		854.97	

3. Building Ownership Certificates for a single storey car port structure with a gross floor area of 111.80 square metres have not yet been issued. Our valuation has been made on the basis

   (i) Changde Huayou shall have no legal impediment and subject to no expenses of substantial amount for the application of building ownership certificate; and

   (ii) the car port structure has been constructed in accordance with relevant construction standards and regulations and are all safety in use for the designed purposes.

4. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal adviser, which contains, inter alia, the followings:

   (i) The land use rights in the property is held by Changde Huayou for a term expiring on 5 November 2051;

   (ii) Exception of a single storey car port structure, the aforesaid buildings with a total gross floor area of 854.97 square metres is held by Changde Huayou;

   (iii) The property interests is legal, valid and protected by law;

   (iv) The aforesaid buildings and structures can be freely transferred, mortgaged or leased.

5. The status of the title and grant of major approvals and licenses in accordance with the information provided by the Group and the opinion of the Company's legal advisers on the PRC law is as follows:

Land Use Rights Certificate:	Yes
Red-line Drawing:	Yes
Building Ownership Certificate:	Yes

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 July 2006 *RMB*
4.	Levels 1 to 3 of the building on No. 581 Renmin Dong Road Donghu Xiang Wuling District Changde City Hunan Province The PRC	The subject development comprises a parcel of contiguous land with a total area of 1,745.10 square metres on which a total of three single to 5-storey buildings and structures completed in 2000. The property comprises retail/office premises on levels 1 to 3 of the aforesaid 5-storey building. The total gross floor area of the property is approximately of 558.53 square metres. The land use rights of the property were granted for a term expiring on 20 November 2041.	The property is occupied by the owner as a service centre such as cashier, administration office, stove and other gas product display etc.	1,650,000

Notes:

1. As revealed by a set of Land Use Right Certificate (Ref No. Chang Guo Yong (2005) No. 21 dated 26 January 2005, the land use rights of the subject land parcel were granted to Changde Huayou Gas Company Limited ("Changde Huayou") for industrial and commercial uses for a term expiring on 20 November 2041.

2. As revealed by the Building Ownership Certificate (Ref Title: Chang Fang Chan Zheng Wu 00135749), the property is held by Changde Huayou.

3. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal adviser, which contains, inter alia, the followings:

   (i) The land use rights in the property is held by Changde Huayou for a term expiring on 20 November 2041;

   (ii) The aforesaid buildings and structures are held by Changde Huayou;

   (iii) The property interests is legal, valid and protected by law;

   (iv) The land and building of the property can be freely transferred, mortgaged or leased.

4. The status of the title and grant of major approvals and licenses in accordance with the information provided by the Group and the opinion of the Company's legal advisers on the PRC law is as follows:

Land Use Rights Certificate:	Yes
Red-line Drawing:	Yes
Building Ownership Certificate:	Yes

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 July 2006 *RMB*
5.	Portion of Levels 3 to 6, 8 and 9 of Control Station Dongting Avenue Central Wuling District Changde City Hunan Province The PRC	The subject development comprises a parcel of contiguous land with a total area of 6,840.40 square metres on which a total of three single to 9-storey buildings and structures are erected in 2004. The property comprises office premises on portion of levels 3 to 6, 8 and 9 of the aforesaid 9-storey building. The total gross floor area of the property is approximately of 2,874.87 square metres. The land use rights of the property were granted for a term expiring on 29 November 2041.	The property is occupied by the owner for office purpose.	5,600,000

Notes:

1. As revealed by a set of Land Use Right Certificate (Ref No. Chang Guo Yong (2005) No. 192 dated 26 January 2005, the land use rights of the subject land parcel were granted to Changde Huayou Gas Company Limited ("Changde Huayou") for industrial and commercial uses for a term expiring on 29 November 2041.

2. As revealed by three sets of Building Ownership Certificate (Ref Title: Chang Fang Chan Zheng Wu 00133254), the property is held by Changde Huayou.

3. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal adviser, which contains, inter alia, the followings:

   (i) The land use rights in the property is held by Changde Huayou for a term expiring on 29 November 2041;

   (ii) The aforesaid buildings and structures are held by Changde Huayou;

   (iii) The property interests is legal, valid and protected by law;

   (iv) The aforesaid 9-storey building is subject to a mortgage;

   (v) The land and building of the property can be freely transferred, mortgaged or leased with the mortgagee prior consent.

4. The status of the title and grant of major approvals and licenses in accordance with the information provided by the Group and the opinion of the Company's legal advisers on the PRC law is as follows:

Land Use Rights Certificate:	Yes
Red-line Drawing:	Yes
Building Ownership Certificate:	Yes

	Property	Description	Particulars of occupancy	Market value in existing state as at 31 July 2006 *RMB*
6.	Land and buildings of Deshan Pump Station Changsha-Changde Gas Pipeline Hunan Province The PRC	Deshan Pump Station comprises a parcel of land dotted in the Changsha-Changde Gas Pipeline running in between Changsha City and Changde City. Erecting on the land parcel is three single storey buildings and structures completed in 2005. The land area and the gross floor area are of the property are 8,653.33 square metres and 677.90 square metres respectively.	The property is currently occupied by the owner as pump station.	1,800,000

Notes:

1. As revealed by a set of Land Use Right Certificate dated 9 May 2005, the land use rights for the land parcel of Deshan Pump Station were granted to Changde Huayou Gas Company Limited ("Changde Huayou") for composite use for a term expiring on 21 August 2046.

2. In our valuation, we have assumed that the property (exception of the Deshan Pump Station) is held for a term of 50 years for industrial purpose (being the maximum term for land use for industrial purpose under the land law of the PRC).

3. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal adviser, which contains, inter alia, the followings:

   (i) The land use rights in the property is held by Changde Huayou. Upon obtaining the Land Use Rights Certificate, the land use rights in the remaining portion of the property will be held by Hunan Huayou Gas Supply Co., Ltd.;

   (ii) The land interests in the property is legal, valid and protected by law;

   (iii) The land use rights in the property can be freely transferred, mortgaged or leased.

   (iv) After completing statutory building completion examination, the Building Ownership Certificate of the property will be issued in the name of Changde Huayou.

4. The status of the title and grant of major approvals and licenses in accordance with the information provided by the Group and the opinion of the Company's legal advisers on the PRC law is as follows:

Land Use Rights Certificate:	Yes
Red-line Drawing:	Yes
Building Ownership Certificate:	No

Group II – Properties held by Changde Huayou for investment

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 July 2006 *RMB*
7.	Warehouse on Qingnian Bei Road Si Cun Wuling District Changde City Hunan Province The PRC	The property comprises a parcel of contiguous land with a total area of 1,916.89 square metres on which a single storey warehouse building is erected in about 1990's. The building structure has a gross floor area of 453.02 square metres. The land use rights of the property were granted for a term expiring on 20 November 2051.	The property is subject to a tenancy for a term commencing on 1 January 2006 and expiring on 31 December 2006 at an annual rent of RMB5,000.	940,000

Notes:

1. As revealed by a set of Land Use Right Certificate (Ref No. Chang Guo Yong (2005) No. 20 dated 26 January 2005, the land use right of the subject land parcel were granted to Changde Huayou Gas Company Limited ("Changde Huayou") for industrial uses for a term expiring on 20 November 2051.

2. As revealed by Building Ownership Certificate Ref No. Chang Fang Chan Zheng Wu 00135757, the building structure is a single storey commercial building with a gross floor area of 453.02 square meters.

3. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal adviser, which contains, inter alia, the followings:

   (i) The land use rights in the property is held by Changde Huayou for a term expiring on 20 November 2051;

   (ii) The aforesaid building is held by Changde Huayou;

   (iii) The property interests is legal, valid and protected by law;

   (iv) The land and building of the property can be freely transferred, mortgaged or leased.

4. The status of the title and grant of major approvals and licenses in accordance with the information provided by the Group and the opinion of the Company's legal advisers on the PRC law is as follows:

Land Use Rights Certificate:	Yes
Red-line Drawing:	Yes
Building Ownership Certificate:	Yes

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 July 2006 *RMB*
8.	Land and buildings of Service Station No. 581 Renmin Dong Road Donghu Xiang Wuling District Changde City Hunan Province The PRC	The property comprises a parcel of contiguous land with a total area of 1,745.10 square metres on which a total of three single to 5-storey buildings (excluding the retail/office premises on levels 1 to 3 as stated in property numbered 4) and structures are erected. The aforesaid buildings and structures were fully completed in 2000. The property has a total gross floor area of 911.21 square metres. They include office buildings and residential building. The land use rights of the property were granted for a term expiring on 20 November 2041.	The property is subject to a tenancy for a term commencing on 1 February 2006 and 31 January 2007 at an annual rent of RMB45,000.	2,280,000

Notes:

1. As revealed by a set of Land Use Right Certificate (Ref No. Chang Guo Yong (2005) No. 21 dated 26 January 2005, the land use rights of the subject land parcel were granted to Changde Huayou Gas Company Limited ("Changde Huayou") for industrial and commercial uses for a term expiring on 20 November 2041.

2. As revealed by three sets of Building Ownership Certificate (Ref Title: Chang Fang Chan Zheng Wu), the detail breakdown of the subject buildings and structures are as follows:

Ref No.	No. of storey	Gross floor area *(sq.m.)*	Usage
00135748	2	379.74	Office
00135749	5	930.89	Office
00135751	1	159.11	Residential
Total Gross Floor Area:		1,469.74	

3. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal adviser, which contains, inter alia, the followings:

   (i) The land use rights in the property is held by Changde Huayou for a term expiring on 20 November 2041;

   (ii) The aforesaid buildings and structures are held by Changde Huayou;

   (iii) The property interests is legal, valid and protected by law;

   (iv) The land and building of the property can be freely transferred, mortgaged or leased with the mortgagee prior consent.

4. The status of the title and grant of major approvals and licenses in accordance with the information provided by the Group and the opinion of the Company's legal advisers on the PRC law is as follows:

Land Use Rights Certificate:	Yes
Red-line Drawing:	Yes
Building Ownership Certificate:	Yes

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 July 2006 *RMB*
9.	Land and buildings of Control Station Dongting Avenue Central Wuling District Changde City Hunan Province The PRC	The property comprises a parcel of contiguous land with a total area of 6,840.40 square metres on which a total of three single to 9-storey buildings and structures (excluding the office premises on levels 3 to 6, 8 and 9 of the 9-storey building as stated in property numbered 5) are erected in 2004. The buildings and structures have a total gross floor area of 7,663.32 square metres. They include composite buildings and residential building. The land use rights of the property were granted for a term expiring on 29 November 2041.	The property is subject to various tenancies for terms expiring on between 31 July 2007 and 31 August 2014 at a total annual rent of RMB1,322,000.	15,400,000

Notes:

1. As revealed by a set of Land Use Right Certificate (Ref No. Chang Guo Yong (2005) No. 192 dated 26 January 2005, the land use rights of the subject land parcel were granted to Changde Huayou Gas Company Limited ("Changde Huayou") for industrial and commercial uses for a term expiring on 29 November 2041.

2. As revealed by three sets of Building Ownership Certificate (Ref Title: Chang Fang Chan Zheng Wu), the detail breakdown of the subject buildings and structures are as follows:

Ref No.	No. of storey	Gross floor area	Usage *(sq.m.)*
00133252	1	34.06	Residential
00133253	4	1,665.60	Composite
00133254	9	8,838.53	Composite
Total Gross Floor Area:		10,538.19	

3. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal adviser, which contains, inter alia, the followings:

   (i) The land use rights in the property is held by Changde Huayou for a term expiring on 29 November 2041;

   (ii) The aforesaid buildings and structures are held by Changde Huayou;

   (iii) The property interests is legal, valid and protected by law;

   (iv) The aforesaid 9-storey building is subject to a mortgage;

   (v) The land and building of the property can be freely transferred, mortgaged or leased.

4. The status of the title and grant of major approvals and licenses in accordance with the information provided by the Group and the opinion of the Company's legal advisers on the PRC law is as follows:

Land Use Rights Certificate:	Yes
Red-line Drawing:	Yes
Building Ownership Certificate:	Yes

	Property	Description	Particulars of occupancy	Market value in existing state as at 31 July 2006 *RMB*
10.	Shop Nos. B-11-19 and B-11-20 on Level 1 Zhilan Estate Nanping Wuling District Changde City Hunan Province The PRC	The property comprises two retail units on ground floor level of a single storey building completed in 2001. The total gross floor area of the property is of 81.22 square metres.	Shop No.B-11-20 is subject to a tenancy at a monthly rent of RMB350 on monthly basis whilst the remaining portion of the property is vacant.	160,000

Notes:

1. As revealed by the Building Ownership Certificate (Ref Title: Chang Fang Chan Zheng Wu 00135756), the property is held by Changde Huayou Gas Company Limited ("Changde Huayou") for commercial use.

2. In our valuation, we have assumed that the property is held for a term of 40 years for commercial purpose (being the maximum term for land use for commercial purpose under the land law of the PRC).

3. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal adviser, which contains, inter alia, the followings:

   (i) The property (building portion and the land use rights attributable to the subject shop units) is held by Changde Huayou;

   (ii) The property interests is legal, valid and protected by law;

   (iii) The property can be freely transferred, mortgaged or leased.

4. The status of the title and grant of major approvals and licenses in accordance with the information provided by the Group and the opinion of the Company's legal advisers on the PRC law is as follows:

   Building Ownership Certificate: Yes

Group III – Property rented by the Company

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 July 2006 *RMB*
11.	30th Floor Sunshine Plaza No. 353 Lockhart Road Wanchai Hong Kong 40/1150th Shares of and in the Remaining Portion of Sub-Section 3 of Section B of, the Remaining Portion of Section B of, Sub-Section 2 of Section B of, Sub-Section 1 of Section B of Marine Lot No. 439 and the Remaining Portion of, Section A and Section B of Inland Lot No. 2751	The property comprises the entire office premises on 30th floor of a 38-storey commercial building completed in 1994. The gross floor area of the property is 5,130 square feet (476.59 square metres). The property is rented by B & B International Marketing (HK) Limited for a term of 1 year expiring on 2 July 2007 at a monthly rent of HK$82,080 exclusive of rates, management fee and other outgoings.	The property is currently occupied by the Company as office.	No Commercial Value

Notes:

1. The registered owner of the property is Dragon Asia Industrial (Holdings) Limited registered vide Memorial No. UB9187942 in consideration of HK$11,000,000 dated 15 March 2004.

2. By virtue of a tenancy agreement between Dragon Asia Industrial (Holdings) Limited (the Landlord) and B & B International Marketing (HK) Limited, a wholly-owned subsidiary of the Company, (the Tenant), the property is leased by the Tenant from the Landlord for a term of 1 year expiring on 2 July 2007 at a monthly rent of HK$82,080 exclusive of rates, management fee and other outgoings.

The following is the text of a letter, summary of value and valuation certificate, prepared for the purpose of incorporation in this circular received from RHL Appraisal Ltd., an independent valuer, in connection with its valuation as at 31 July 2006 of the property interests held by the Enlarged Group.

永利行評值顧問有限公司 | RHL Appraisal Ltd
Surveying Practices - Corporate Valuation and Property Consultancy
License No.: C-015672

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21 August 2006

The Board of Directors
China Vanguard Group Limited
30th Floor
Sunshine Plaza
No. 353 Lockhart Road
Wanchai
Hong Kong

Dear Sirs,

Re: Valuation of Land and buildings of Changsha-Changde Gas Pipeline, Hunan Province, the People's Republic of China (the "PRC")

In accordance with the instructions from **China Vanguard Group Limited** (referred to as the "Company") to value the Land and buildings of Changsha-Changde Gas Pipeline (referred to as the "property") held by **Hunan Huayou Natural Gas Transportation & Distribution Company Limited** (referred to as "Hunan Huayou"), we confirm that we have carried out inspections of the property, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the property as at **31 July 2006** (the "date of valuation").

Basis of Valuation

Our valuation of the properties represents the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

Valuation Methodology

The property has no commercial value on the reason that the land grant procedures have not yet been completed as at the valuation date.

Assumptions

For the property held by means of long term Land Use Rights granted by the Government, we have assumed that the owner has free and uninterrupted rights to use the property for the whole of the unexpired term of the respective land use rights. We have also assumed that they can be freely transferred on the market free from any land premium or expenses of substantial amount payable to the Government.

Other special assumptions for our valuation (if any) would be stated out in the footnotes of the valuation certificate attached herewith.

Titleship

We have been provided with copies of legal documents regarding the property. However, we have not verified ownership of the property and the existence of any encumbrances that would affect ownership of them.

We have also relied upon the legal opinion provided by Hills & Co. (廣東君道律師事務所), an independent PRC legal adviser, to the Company on the relevant laws and regulations in the PRC and on the nature of land use rights in the property.

Limiting Conditions

No allowance has been made in our report for any charges, mortgages or amounts owing on the property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value. Our valuation have been made on the assumption that the seller sells the property on the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the value of the property.

We have relied to a very considerable extent on the information given by the Company and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the property but have assumed that the site areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

We have carried out inspections of the property. However, no structural survey has been made. In the course of our inspection, we did not note any serious defects. We are unable to report whether the buildings and structures of the property are free of rot, infestation or any other structural defects. No test was carried out on any of the services of the buildings and structures of the property.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

In valuing the property, we have complied with all the requirements contained in Chapter 8 of the Rules Governing the Listing of Securities on the Growth Enterprise Market and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors effective from 1 January 2005.

Unless otherwise stated, all monetary sums stated in this report are in Renminbi (RMB).

Our valuation certificate are attached herewith.

Yours faithfully,
for and on behalf of
RHL Appraisal Ltd.

Tse Wai Leung	**Sandra S.W. Lau**
MFin BSc MRICS MHKIS RPS(GP)	MFin MHKIS AAPI RPS(GP)
Director	*Director*

Tse Wai Leung is a member of the Royal Institution of Chartered Surveyors, a member of The Hong Kong Institute of Surveyors, a Registered Professional Surveyor in General Practice and a qualified real estate appraiser in the PRC. Sandra S.W. Lau is a member of the Hong Kong Institute of Surveyors, an Associate of the Australian Property Institute and a Registered Professional Surveyor in General Practice. Both of them are on the list of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers of the Hong Kong Institute of Surveyors, Registered Business Valuer under the Hong Kong Business Forum and have over 10 years' experience in valuation of properties in Hong Kong, in Macau and in the PRC.

VALUATION CERTIFICATE

Property	Description	Particulars of occupancy	Market Value in existing state as at 31 July 2006 *RMB*
Land and buildings of Changsha-Changde Gas Pipeline Hunan Province The PRC	The property comprises various parcels of land dotted along the Changsha-Changde Gas Pipeline running in between Changsha City and Changde City. Erecting on the land parcels are various single to 2-storey buildings and structures which include an embarkation station (Xingsha Embarkation Station), three intermediary pump station (Tongguan Pump Station, Wangcheng Pump Station and Yiyang Pump Station) and a terminal station (Huangmuguan). The total land area and total gross floor area are of the property are 35,451.12 square metres and 2,403.12 square metres respectively.	The property is currently occupied by the owner as embarkation station, pump station and terminal station.	No Commercial Value

Notes:

1. In our valuation, we have assumed that the property is held for a term of 50 years for industrial purpose (being the maximum term for land use for industrial purpose under the law of the PRC).

2. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal adviser, which contains, *inter alia*, the following:

   Upon obtaining the Land Use Rights Certificate, the land use rights in the property will be held by Hunan Huayou.

3. The status of the title and grant of major approvals and licenses in accordance with the information provided by the Group and the opinion of the Company's legal advisers on the PRC law is as follows:

Land Use Rights Certificate:	No
Red-line Drawing:	No
Building Ownership Certificate:	No

4. The property has no commercial value on the reason that the land grant procedures have not yet been completed as at the valuation date.

The following is the text of a letter prepared for the purpose of incorporation in this circular received from BMI Appraisals Limited, an independent valuer, in connection with its valuation as at 30 June 2006 of the 100 per cent equity interest in Changde Huayou Gas Co. Ltd.

BMI APPRAISALS

BMI Appraisals Limited 中和邦盟評估有限公司

Suite 11-18, 31/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong
香港灣仔港灣道6-8號瑞安中心3111-18室
Tel電話：(852) 2802 2191 Fax傳真：(852) 2802 0863
Email電郵：info@bmintelligence.com Website網址：www.bmintelligence.com

30 August 2006

The Directors
常德華油燃氣有限公司 (Changde Huayou Gas Co. Ltd.)
湖南省常德市洞庭大道268號 (No. 268 Dong Ting Da Dao, Changde City, Hunan Province)

China Vanguard Group Limited
30th Floor
Sunshine Plaza
No. 353 Lockhart Road
Wanchai
Hong Kong

Dear Sirs,

INSTRUCTIONS

We refer to the instructions from Changde Huayou Gas Co. Ltd. and China Vanguard Group Limited for us to provide our opinion on the market value of the 100 per cent equity interest in Changde Huayou Gas Co. Ltd. (referred to as the "Company") in the People's Republic of China (the "PRC") as at 30 June 2006 (the "date of valuation").

This report describes the background of the Company, a brief overview of Changde City, the basis of valuation & assumptions, explains the valuation methodology utilized and presents our conclusion of value.

PURPOSE OF VALUATION

We understand that the purpose of our valuation is to express an independent opinion on the market value of the 100 per cent equity interest in the Company as at 30 June 2006 for acquisition reference purposes only.

BASIS OF VALUATION

Our valuation was carried out on the basis of market value. Market value is defined as "the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

BACKGROUND OF THE COMPANY

The Company was formerly called 常德市天源管道燃氣實業有限公司 (Changde City Tian Yuan Pipeline Gas Industrial Co. Ltd.*), established by 北京鑫恒投資諮詢有限公司 (Beijing Xin Heng Investment Consultancy Co. Ltd.*), 常德市國有資產管理公司 (Changde State-owned Asset Operation Management Company*) and 夏崇仁先生 (Mr. Xia Chong Ren*), with capital investments of RMB1,200,000, RMB800,000 and RMB8,680,000 respectively. According to a resolution made at a shareholders' meeting in October 2003 and an agreement of transfer of investments, the combined investments of RMB9,880,000 by Beijing Xin Heng Investment Consultancy Co. Ltd.* and Mr. Xia Chong Ren was transferred to 中國華油集團公司 (China Huayou Group Corporation*) and 常德市天源管道燃氣實業有限公司 (Changde City Tian Yuan Pipeline Gas Industrial Co. Ltd.*) was then renamed as Changde Huayou Gas Co. Ltd. (i.e. the Company). After an increase in the invested capital of the Company by China Huayou Group Corporation*, the registered capital of the Company reached RMB61,880,000. The capital invested by China Huayou Group Corporation* and Changde State-owned Asset Operation Management Company* was RMB61,080,000 and RMB800,000, representing 98.71% and 1.29% of the total invested capital respectively.

The principal businesses of the Company include: building pipelines of natural gas, exploring natural gas resources, usage and technical services, technical consultancy and maintenance. The Company also sells gas-related equipment and facilities, construction materials, electronic products and equipment leasing.

Currently, the Company mainly engages in selling pipeline gas, liquefied natural gas, liquefied gas in cylinders and gas-related products. It also undertakes designs and construction of gas pipelines as well as property leasing.

BRIEF OVERVIEW OF CHANGDE CITY

Geographical Location and Economy

Located in Hunan province, Changde City is one of the major commercial cities of the province. With continually rapid economic development in the PRC, together with Changde City's specific geographic location and transportation advantages, Changde City is expected to become a centre city and a centre of transportation and logistics in the region. The principal industry of Changde City is light industry, including manufacturing of cigarettes and glasses, etc.

Population

Changde City is composed of two districts, one city and six counties, with a total area of about 18,190 square kilometers. The total city population in 2005 was 580,000 and is expected to reach 950,000 by the end of 2020.

SOURCE OF INFORMATION

For the purpose of our valuation, we were furnished with the financial and operational data related of the Company, which was given by the management of the Company.

The valuation of 100 per cent equity interest in the Company required consideration of all pertinent factors affecting the economic benefits of the Company and its abilities to generate future investment returns. The factors considered in the valuation included, but were not limited to the following:

- The business nature of the Company;
- The financial information of the Company;
- The specific economic environment and competition for the market in which the Company operates;
- Market-derived investment returns of entities engaged in similar lines of business; and
- The financial and business risks of the Company, including the continuity of income and the projected future results.

SCOPE OF WORKS

In the course of our valuation work for the Company, we have conducted the following steps to evaluate the reasonableness of the adopted bases and assumptions provided by the Company:

- Interviewed with the management of the Company;
- Obtained all relevant operational and financial information of the Company;
- Performed market research and obtained statistical figures from public sources;
- Examined all relevant bases and assumptions of both the financial and operational information of the Company, which were provided by the management of the Company;
- Prepared a business financial model to derive the indicated value of the Company; and
- Presented all relevant information on the background of the Company, valuation methodology, source of information, scope of works, major assumptions, comments and our conclusion of value in this report.

VALUATION ASSUMPTIONS

Given the changing environment in which the Company is exposed to, a number of assumptions have to be established in order to sufficiently support our concluded opinion of value of the Company. The major assumptions adopted in our valuation are:

- There will be no major changes in the existing political, legal, and economic conditions in the jurisdiction where the Company operates;
- There will be no major changes in the current taxation law in the jurisdiction where the Company operates, that the rates of tax payable remain unchanged and that all applicable laws and regulations will be complied with;
- The financial information in respect of the Company has been prepared on a reasonable basis, reflecting estimates that have been arrived at after due and careful considerations by the management of the Company;
- Exchange rates and interest rates will not differ materially from those presently prevailing; and
- Economic conditions will not deviate significantly from economic forecasts.

VALUATION METHODOLOGY

Three generally accepted valuation methodologies have been considered in valuing the 100 per cent equity interest in the Company. They are the market approach, the cost approach and the income approach.

The Market approach provides indications of value by comparing the subject to similar businesses, business ownership interests, and securities that have been sold in the market.

The Cost approach provides indications of value by studying the amounts required to recreate the business for which a value conclusion is desired. This approach seeks to measure the economic benefits of ownership by quantifying the amount of fund that would be required to replace the future service capability of the business.

The Income approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the project than an amount equal to the present worth of anticipated future benefits from the same or a substantially similar business with a similar risk profile.

We considered that the market approach was not appropriate to value the Company, as there are insufficient comparable transactions in the market. The Cost Approach was also regarded not adequate in this valuation, as this approach does not take future growth potential of the Company into consideration. Thus, we determined that the income approach was the most appropriate valuation approach for this valuation.

In the valuation, we applied the income approach also known as the discounted cash flow (referred to as "DCF") method. We determined the market value by applying a discount rate (i.e. the cost of capital) in the DCF model to determine the net present value of the Company's future expected cash flows. The expected cash flows were determined from the net profits after tax plus non-cash expenses such as depreciation and amortization expenses, and after-tax interest expenses and less non-cash incomes, capital expenditures and changes in working capital.

The discount rate takes into account two different types of risks – systematic and non-systematic risks. Risks that are correlated with the return from the stock market are referred to as systematic risks. Other risks that are company-specific are referred to as non-systematic risks. We determined the rate of return for systematic risks based on the Capital Asset Pricing Model ("CAPM"). The CAPM states that an investor requires excess returns to compensate systematic risks without excess return for non-systematic risks.

Under the CAPM, the appropriate rate of return is the sum of the risk-free rate and a related beta times the market risk premium. We adopted the yield rate of the 10-year Hong Kong government bond as at the date of valuation as the risk-free rate, which was 4.88%. Besides, the market risk premium we adopted in the DCF model was 6.95%. The beta was determined as the weighted-average of betas of publicly listed comparable companies that are in the same industry. In working out the weighted-average beta, we took into consideration the difference in market capitalization of each selected company. The estimated beta for the Company is 0.596.

In respect of non-systematic risks, we considered the size difference (a company-specific risk) between the Company and the selected comparable companies (with reference to "Risk Premia over Time Report: 2003", published by Ibbotson Associates), and determined that a size premium of 3.53% was adopted. In addition, a company-specific risk of 1% was added in the determination of the discount rate to reflect limited geographical exposure of the Company. As a result, the discount rate was calculated as 13.55%.

One of the parameters playing a crucial role in the valuation was the penetration rate. The penetration rate indicates how many existing energy users (by percentage) in Changde City change its existing fuel source (other than natural gas) to natural gas. The penetration rate significantly affects the turnover of the Company between 2006 and 2010. We determined that a penetration rate of 75% was appropriate for the valuation. The 75% was based on market reference that the penetration rate in the covered areas (more than 40 cities) in China can reach 70% to 80%, therefore, we considered that a penetration rate of 75% would be appropriate.

Based on a penetration rate of 75%, the expected annual increased rates of turnover between 2006 and 2010 and between 2011 and 2026 are 38.08% and 2.31% respectively. We based our estimations of the annual increased rate partly on publicly available market data and partly on a research report 長沙星沙至常德天然氣長輸管道工程經濟評價 (Changsha Xingsha to Changde Natural Gas Main Pipeline Construction Project Economic Valuation*) (項目號: B04036) conducted by 中國石油集團工程設計有限責任公司北京分公司 (Research Institute of Engineering Technology of CNPC – Beijing Branch*) on 6 April 2006. The relatively large annual increased rate of 38.08% is mainly attributed to an estimated substantial change in fuel source (i.e. from diesel oil, coal, liquefied petroleum gas, etc to natural gas) by the existing energy users (including residential users commercial users, industrial users, government-related users and some specific vehicles) in Changde City.

VALUATION COMMENTS

For the purpose of this valuation and in arriving at our opinion of value, we have referred to the information provided by the management of the Company to estimate the value of the Company. We have also sought and received confirmation from the Company that no material facts have been omitted from the information supplied. In addition, the valuation was based on The Hong Kong Business Valuation Forum Business Valuation Standards.

To the best of our knowledge, all data set forth in this report are true and accurate. Although gathered from reliable sources, no guarantee is made nor liability assumed for the accuracy of any data, opinions, or estimates identified as being furnished by others, which have been used in formulating this analysis.

REMARKS

Neither the whole nor any part of this report nor any reference thereto may be included in any document, circular or statement without our written approval of the form and context in which it will appear.

Finally and in accordance with our standard practice, we must state that this report is for the exclusive use of the addressee and for the purpose stated herein. No responsibility is accepted to any third party for the whole or any part of its contents.

Unless otherwise stated, all money amounts stated are in Renminbi (RMB).

SENSITIVITY ANALYSIS

A sensitivity analysis based on various discount rates and penetration rates has been performed and is presented as follows:

(RMB'000)

	Penetration Rate		
Discount Rate	**70%**	**75%**	**80%**
13.05%	135,390	145,550	159,000
13.55%	130,610	140,440	153,420
14.05%	126,080	135,600	148,130

CONCLUSION OF VALUE

Our conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of a lot of uncertainties, not all of which can be easily ascertained or quantified.

Further, whilst the assumptions and consideration of such matters are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company or us.

Based on our investigation and analysis outlined in this report, it is of our opinion that the market value of the 100 per cent equity interest in the Company as at 30 June 2006 was **RMB140,440,000 (Renminbi One Hundred Forty Million Four Hundred and Forty Thousand Only**).

We hereby certify that we have neither present nor prospective interest in the Company or the value reported.

This report is subject to the limiting conditions attached.

Yours faithfully,
For and on behalf of
BMI APPRAISALS LIMITED

Marco T.C. Sze
B.Eng(Hon) MBA(Acct)
Senior Manager

Brian W. K. Li
BSc MHKIS MRICS RPS(GP) CIREA
Associate Director

Lowell W.W. Lo
BBA(Hons) MSc(NJIT) CPA AICPA SIFM
Director

Notes:

1. Mr. Marco Sze holds a Master's Degree of Business Administration in Accountancy from the City University of New York – Baruch College and has passed all qualifying examinations of Chartered Financial Analyst. He has about 3 years' experience in valuing businesses and intangible assets in Hong Kong, China and the Asia-Pacific Regions.

2. Mr. Brian Li is a member of the Royal Institution of Chartered Surveyors, a member of the Hong Kong Institute of Surveyors, a Registered Professional Surveyor in General Practice and a member of China Institute of Real Estate Appraisers. He is on the list of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in connection with Takeovers and Mergers of the Hong Kong Institute of Surveyors and a Registered Business Valuer under the Hong Kong Business Valuation Forum. He has over 10 years' experience in valuing businesses and intangible assets in Hong Kong, China and the Asia-Pacific Regions.

3. Mr. Lowell Lo is a practicing member of the Hong Kong Institute of Certified Public Accountants, a member of the American Institute of Certified Public Accountants. He has over 5 years of experience in valuing businesses and intangible assets in Hong Kong, Macao, China and various locations in the Asia-Pacific Region.

LIMITING CONDITIONS

1. As part of our analysis, we have reviewed financial and business information from public sources together with such financial information, project documentation and other pertinent data concerning the project as has been made available to us. We have assumed the accuracy of, and have relied on, such information. We have relied to a considerable extent on such information provided in arriving at our opinion of value.

2. BMI Appraisals Limited shall not be required to give testimony or attendance in court or to any government agency by reason of this valuation, with reference to the project described herein, unless prior arrangements have been made.

3. No opinion is intended to be expressed for matters which require legal or other specialized expertise or knowledge, beyond that customarily employed by valuers.

4. Our conclusions assume continuation of prudent management policies over whatever period of time is reasonable and necessary to maintain the character and integrity of the assets valued.

5. We assume that there are no hidden or unexpected conditions associated with the assets valued that might adversely affect the reported value. Further, we assume no responsibility for changes in market conditions which may require an adjustment in the valuation.

* *For identification purpose only*

The following is the text of a letter prepared for the purpose of incorporation in this circular received from BMI Appraisals Limited, an independent valuer, in connection with its valuation as at 30 June 2006 of the 100 per cent equity interest in Hunan Huayou Natural Gas Transportation & Distribution Company Limited.*

BMI APPRAISALS

BMI Appraisals Limited 中和邦盟評估有限公司

Suite 11-18, 31/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong
香港灣仔港灣道6-8號瑞安中心3111-18室
Tel電話：(852) 2802 2191 Fax傳真：(852) 2802 0863
Email電郵：info@bmintelligence.com Website網址：www.bmintelligence.com

30 August 2006

The Directors
湖南華油天然氣輸配有限責任公司 (Hunan Huayou Natural Gas Transportation & Distribution Company Limited*)
湖南省常德市洞庭大道268號 (No. 268 Dong Ting Da Dao, Changde City, Hunan Province)

China Vanguard Group Limited
30th Floor
Sunshine Plaza
No. 353 Lockhart Road
Wanchai
Hong Kong

Dear Sirs,

INSTRUCTIONS

We refer to the instructions from 湖南華油天然氣輸配有限責任公司 (Hunan Huayou Natural Gas Transportation & Distribution Company Limited*) and China Vanguard Group Limited for us to provide our opinion on the market value of the 100 per cent equity interest in 湖南華油天然氣輸配有限責任公司 (Hunan Huayou Natural Gas Transportation & Distribution Company Limited*) (referred to as the "Company") in the People's Republic of China (the "PRC") as at 30 June 2006 (the "date of valuation").

This report describes the background of the Company, a brief overview of the subject cities, the basis of valuation & assumptions, explains the valuation methodology utilized and presents our conclusion of value.

PURPOSE OF VALUATION

We understand that the purpose of our valuation is to express an independent opinion on the market value of the Company as at 30 June 2006 for acquisition reference purposes only.

BASIS OF VALUATION

Our valuation was carried out on the basis of market value. Market value is defined as "the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

BACKGROUND OF THE COMPANY

The Company was established by 中國華油集團公司 (China Huayou Group Corporation*) and 北京新華聯燃氣投資有限公司 (Beijing Xin Hua Lian Gas Investment Co. Ltd.*) in April 2005. The registered capital of the Company is RMB100,000,000, including RMB65,000,000 (65% share equity) and RMB35,000,000 (35% share equity) from China Huayou Group Corporation* and Beijing Xin Hua Lian Gas Investment Co. Ltd.* respectively.

The principal businesses of the Company include: building pipelines of natural gas, exploring natural gas resources, usage and technical services, technical consultancy and maintenance. The Company also engages in selling gas-related equipment and facilities, construction materials, electronic products and equipment leasing.

The Company has constructed a natural gas pipeline between Changsha City and Changde City, with a total length of 187.46 kilometers and the diameter of 406*5.2 millimeters. The project is a major construction project in Hunan Province. The short-term, middle-term and long-term design capacities of the pipeline are 250,000,000 cubic meters, 350,000,000 cubic meters and 600,000,000 cubic meters respectively. The total construction area and the occupied area of the pipeline are 2.65 acres and 1,978 square meters respectively. Total investment was RMB346,000,000. The pipeline primarily serves Wangcheng County, Yiyang City and Changde City, and will expand its services to other cities/counties along the pipeline.

BRIEF OVERVIEW OF THE SUBJECT CITIES

(1) Wangcheng County

According to the research about Wangcheng County carried out by the Company, the city population for 2005, 2010 and 2020 are 120,000, 180,000 and 250,000 respectively. The city population mainly spreads over 高塘嶺組團 (Gaotangling Zutuan*), 西塘街組團 (Xitangjie Zutuan*), 雷峰街組團 (Liefengjie Zutuan*), 白芙唐組團 (Baifutang Zutuan*), 旺旺組團 (Wangwang Zutuan*), 港台投資商開發區 (Hong Kong and Taiwan Investment & Development Zone*) and 星城鎮組團 (Xingchengzhen Zutuan*).

(2) Yiyang City

Yiyang City is one of the major cities in the area. Its principal industries include manufacturing of machineries, electronics, fabrics and food. It also focuses more on energy, transportation, high technology, finance, trading, information and property.

(3) Changde City

Located in Hunan province, Changde City is one of the major commercial cities of the province. With continually rapid economic development in the PRC, together with Changde City's specific geographic location and transportation advantages, Changde City is expected to become a centre city and a center of transportation and logistics in the region. The principal industry of Changde City is light industry, including manufacturing of cigarettes and glasses, etc.

OPERATIONAL PERIOD OF THE PIPELINE

As the normal useful life of a natural gas pipeline is 20 years, the Company will need to make additional investments in the pipeline if it wants to run the pipeline continually. For this valuation, we assume that the Company will not make such additional investments after the end of the useful life. Therefore, the period that was used in this valuation is between 1 July 2006 and 30 June 2026.

SOURCE OF INFORMATION

For the purpose of our valuation, we were furnished with the financial and operational data of the Company, which was given by the management of the Company.

The valuation of 100 per cent equity interest in the Company required consideration of all pertinent factors affecting the economic benefits of the Company and its abilities to generate future investment returns. The factors considered in the valuation included, but were not limited to the following:

- The business nature of the Company;
- The financial information of the Company;
- The specific economic environment and competition for the market in which the Company operates;
- Market-derived investment returns of entities engaged in similar lines of business; and
- The financial and business risks of the Company, including the continuity of income and the projected future results.

SCOPE OF WORKS

In the course of our valuation work for the Company, we have conducted the following steps to evaluate the reasonableness of the adopted bases and assumptions provided by the Company:

- Interviewed with the management of the Company;
- Obtained all relevant operational and financial information of the Company;
- Performed market research and obtained statistical figures from public sources;
- Examined all relevant bases and assumptions of both the financial and operational information of the Company, which were provided by the management of the Company;

- Prepared a business financial model to derive the indicated value of the Company; and

- Presented all relevant information on the background of the Company, valuation methodology, source of information, scope of works, major assumptions, comments and our conclusion of value in this report.

VALUATION ASSUMPTIONS

Given the changing environment in which the Company is exposed to, a number of assumptions have to be established in order to sufficiently support our concluded opinion of value of the Company. The major assumptions adopted in our valuation are:

- There will be no major changes in the existing political, legal, and economic conditions in the jurisdiction where the Company operates;

- There will be no major changes in the current taxation law in the jurisdiction where the Company operates, that the rates of tax payable remain unchanged and that all applicable laws and regulations will be complied with;

- The financial information in respect of the Company has been prepared on a reasonable basis, reflecting estimates that have been arrived at after due and careful considerations by the management of the Company;

- Exchange rates and interest rates will not differ materially from those presently prevailing; and

- Economic conditions will not deviate significantly from economic forecasts.

VALUATION METHODOLOGY

Three generally accepted valuation methodologies have been considered in valuing the 100 per cent equity interest in the Company. They are the market approach, the cost approach and the income approach.

The Market approach provides indications of value by comparing the subject to similar businesses, business ownership interests, and securities that have been sold in the market.

The Cost approach provides indications of value by studying the amounts required to recreate the business for which a value conclusion is desired. This approach seeks to measure the economic benefits of ownership by quantifying the amount of fund that would be required to replace the future service capability of the business.

The Income approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the project than an amount equal to the present worth of anticipated future benefits from the same or a substantially similar business with a similar risk profile.

We considered that the market approach was not appropriate to value the Company, as there are insufficient comparable transactions in the market. The Cost Approach was also regarded not adequate in this valuation, as this approach does not take future growth potential of the Company into consideration. Thus, we determined that the income approach was the most appropriate valuation approach for this valuation.

In the valuation, we applied the income approach also known as the discounted cash flow (referred to as "DCF") method. We determined the market value by applying a discount rate (the cost of capital) in the DCF model to determine the net present value of the Company's future expected cash flows. The expected cash flows were determined from the net profits after tax plus non-cash expenses such as depreciation and amortization expenses, and after-tax interest expenses and less non-cash incomes, capital expenditures and changes in working capital.

The discount rate takes into account two different types of risks – systematic and non-systematic risks. Risks that are correlated with the return from the stock market are referred to as systematic risks. Other risks that are company-specific are referred to as non-systematic risks. We determined the rate of return for systematic risks based on the Capital Asset Pricing Model ("CAPM"). The CAPM states that an investor requires excess returns to compensate systematic risks without excess return for non-systematic risks.

Under the CAPM, the appropriate rate of return is the sum of the risk-free rate and a related beta times the market risk premium. We adopted the yield rate of the 10-year Hong Kong government bond as at the date of valuation as the risk-free rate, which was 4.88%. Besides, the market risk premium we adopted in the DCF model was 6.95%. The beta was determined as the weighted-average of betas of publicly listed comparable companies that are in the same industry. In working out the weighted-average beta, we took into consideration the difference in market capitalization of each selected company. The estimated beta for the Company is 0.596.

In respect of non-systematic risks, we considered the size difference (a company-specific risk) between the Company and the selected comparable companies (with reference to "Risk Premia over Time Report: 2003", published by Ibbotson Associates), and determined that a size premium of 3.00% was adopted. As a result, the discount rate was calculated as 12.02%.

One of the parameters playing a crucial role in the valuation was the penetration rate. The penetration rate indicates how many existing energy users (by percentage) in the subject areas change its existing fuel source (other than natural gas) to natural gas. The penetration rate significantly affects the turnover of the Company between 2006 and 2010. We determined that a penetration rate of 75% was appropriate for the valuation. The 75% was based on market reference that the penetration rate in the covered areas (more than 40 cities) in China can reach 70% to 80%, therefore, we considered that a penetration rate of 75% would be appropriate.

Regarding expected annual increased rates of turnover between 2006 and 2010 and between 2011 and 2026 are 43.53% and 2.59% respectively. We based our estimations of the annual increased rate partly on publicly available market data and partly on a research report 長沙星沙至常德天然氣長輸管道工程經濟評價 (Changsha Xingsha to Changde Natural Gas Main Pipeline Construction Project Economic Valuation*) (項目號: B04036) conducted by 中國石油集團工程設計有限責任公司北京分公司 (Research Institute of Engineering Technology of CNPC – Beijing Branch*) on 6 April 2006. The relatively large annual increased rate of 43.53% is mainly attributed to an estimated substantial change in fuel source (i.e. from diesel oil, coal, liquefied petroleum gas, etc to natural gas) by the existing energy users (including residential users commercial users, industrial users, government-related users and some specific vehicles) in the subject areas.

VALUATION COMMENTS

For the purpose of this valuation and in arriving at our opinion of value, we have referred to the information provided by the management of the Company to estimate the value of the Company. We have also sought and received confirmation from the Company that no material facts have been omitted from the information supplied. In addition, the valuation was based on The Hong Kong Business Valuation Forum Business Valuation Standards.

To the best of our knowledge, all data set forth in this report are true and accurate. Although gathered from reliable sources, no guarantee is made nor liability assumed for the accuracy of any data, opinions, or estimates identified as being furnished by others, which have been used in formulating this analysis.

REMARKS

Neither the whole nor any part of this report nor any reference thereto may be included in any document, circular or statement without our written approval of the form and context in which it will appear.

Finally and in accordance with our standard practice, we must state that this report is for the exclusive use of the addressee and for the purpose stated herein. No responsibility is accepted to any third party for the whole or any part of its contents.

Unless otherwise stated, all money amounts stated are in Renminbi (RMB).

SENSITIVITY ANALYSIS

A sensitivity analysis based on various discount rates and penetration rates has been performed and is presented as follows:

(RMB'000)

	Penetration Rate		
Discount Rate	**70%**	**75%**	**80%**
11.50%	147,080	171,520	199,050
12.00%	138,130	161,610	188,040
12.50%	129,780	152,340	177,740

CONCLUSION OF VALUE

Our conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of a lot of uncertainties, not all of which can be easily ascertained or quantified.

Further, whilst the assumptions and consideration of such matters are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company or us.

Based on our investigation and analysis outlined in this report, it is of our opinion that the market value of the 100 per cent equity interest in the Company as at 30 June 2006 was **RMB161,610,000 (Renminbi One Hundred Sixty One Million Six Hundred and Ten Thousand Only).**

We hereby certify that we have neither present nor prospective interest in the Company or the value reported.

This report is subject to the limiting conditions attached.

Yours faithfully,
For and on behalf of
BMI APPRAISALS LIMITED

Marco T.C. Sze
B.Eng(Hon) MBA(Acct)
Senior Manager

Brian W. K. Li
BSc MHKIS MRICS RPS(GP) CIREA
Associate Director

Lowell W.W. Lo
BBA(Hons) MSc(NJIT) CPA AICPA SIFM
Director

Notes:

1. Mr. Marco Sze holds a Master's Degree of Business Administration in Accountancy from the City University of New York – Baruch College and has passed all qualifying examinations of Chartered Financial Analyst. He has about 3 years' experience in valuing businesses and intangible assets in Hong Kong, China and the Asia-Pacific Regions.

2. Mr. Brian Li is a member of the Royal Institution of Chartered Surveyors, a member of the Hong Kong Institute of Surveyors, a Registered Professional Surveyor in General Practice and a member of China Institute of Real Estate Appraisers. He is on the list of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in connection with Takeovers and Mergers of the Hong Kong Institute of Surveyors and a Registered Business Valuer under the Hong Kong Business Valuation Forum. He has over 10 years' experience in valuing businesses and intangible assets in Hong Kong, China and the Asia-Pacific Regions.

3. Mr. Lowell Lo is a practicing member of the Hong Kong Institute of Certified Public Accountants, a member of the American Institute of Certified Public Accountants. He has over 5 years of experience in valuing businesses and intangible assets in Hong Kong, Macao, China and various locations in the Asia-Pacific Region

LIMITING CONDITIONS

1. As part of our analysis, we have reviewed financial and business information from public sources together with such financial information, project documentation and other pertinent data concerning the project as has been made available to us. We have assumed the accuracy of, and have relied on, such information. We have relied to a considerable extent on such information provided in arriving at our opinion of value.

2. BMI Appraisals Limited shall not be required to give testimony or attendance in court or to any government agency by reason of this valuation, with reference to the project described herein, unless prior arrangements have been made.

3. No opinion is intended to be expressed for matters which require legal or other specialized expertise or knowledge, beyond that customarily employed by valuers.

4. Our conclusions assume continuation of prudent management policies over whatever period of time is reasonable and necessary to maintain the character and integrity of the assets valued.

5. We assume that there are no hidden or unexpected conditions associated with the assets valued that might adversely affect the reported value. Further, we assume no responsibility for changes in market conditions which may require an adjustment in the valuation.

* *For identification purpose only*

The following is the text of the letters from its reporting accountants, W.H. Tang & Partners CPA Limited, and its financial advisers, Grand Vinco Capital Limited, in connection with the business valuation of the Changde Joint Venture and Hunan Joint Venture for inclusion in this circular. As described in the section headed "Documents available for inspection" in Appendix X, a copy of the following letters are available for inspection.

A. LETTER FROM W.H. TANG & PARTNERS CPA LIMITED

鄧偉雄會計師事務所有限公司

Level 7, Parkview Centre,
7 Lau Li Street,
Causeway Bay, Hong Kong.

香港銅鑼灣琉璃街七號
栢景中心七樓

Tel : (852) 23426130
Fax : (852) 23426006

W.H. TANG & PARTNERS CPA LIMITED

19 October 2006

The Directors
China Vanguard Group Limited
30th Floor
Sunshine Plaza
No. 353 Lockhart Road
Wanchai
Hong Kong

Dear Sirs,

In accordance with the instructions of the Directors of China Vanguard Group Limited (the "Company"), we have performed a reviewed on profit forecast of 常德華油燃氣有限公司 ("Changde Huayou") and 湖南華油天燃氣輸配有限責任公司 ("Hunan Huayou") dated 30 August 2006 prepared by BMI Appraisals Limited (the "valuations").

We hereby confirmed that we have reviewed the accounting policies and calculations for the valuations. In our opinion, the valuations, so far as the calculations are concerned, have been properly complied in accordance with the bases and assumptions made by BMI Appraisals Limited.

We make no representation as to the legal interpretation of the above information as presented in the circular dated 19 October 2006 issued by Aptus Holdings Limited in connection with the very substantial acquisition in relation to the proposed acquisition of an aggregate of 48.33% equity interest in Changde Huayou and 33% equity interest of Hunan Huayou (the "Circular").

This letter is prepared solely for your information and must not be filed with or referred to (either in whole or in part in the above-mentioned circular) or any other document or otherwise quoted, circulated or used for any other purposes without our prior written consent.

Yours faithfully,
For and on behalf of
W.H. Tang & Partners CPA Limited
Tang Wai Hung
Director

B. LETTER FROM GRAND VINCO CAPITAL LIMITED

VINCO 城高

Grand Vinco Capital Limited
Unit 4909-4910, 49/F
The Center
99 Queen's Road Central
Hong Kong

19 October 2006

The Directors
China Vanguard Group Limited
30th Floor
Sunshine Plaza
No. 353 Lockhart Road
Wanchai
Hong Kong

Dear Sirs,

We refer to the report of the business valuation prepared by BMI Appraisals Limited ("BMI") in relation to the appraisal of the market value of 48.33% % interest in 常德華油燃氣有限公司 ("Changde Huayou") and 33% interest in 湖南華油天然氣輸配有限責任公司 ("Hunan Huayou") as at 30 August 2006 (the "Business Valuations" as set out in Appendix VII & VIII to this Circular).

We have reviewed the Business Valuation for which BMI is responsible and discussed with you the information and documents provided by you which formed part of the bases and assumptions upon which Business Valuations have been prepared. We have also considered the letter from W.H. Tang & Partners CPA Limited dated 19 October 2006 addressed to yourselves regarding whether the Business Valuations were compiled properly so far as the calculations are concerned.

On the basis of the foregoing, we are of the opinion that the Business Valuations, for which you as the directors of the Company are solely responsible, have been stated after due and careful enquiry of you.

Your faithfully,
For and on behalf of
Grand Vinco Capital Limited
Alister Chung
Managing Director

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, include particulars given in compliance with the GEM Listing Rules 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:

(a) the information contained in this circular is accurate and complete in all material respects and not misleading;

(b) there are no other matters the omission of which would make any statement in this circular misleading; and

(c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

2. DIRECTORS' INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of 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 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, were as follows:

(1) Long positions in the shares of the Company

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

Notes:

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

2. The 241,130,000 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 respectively. Mr. Chan Tung Mei is the spouse of Madam Cheung Kwai Lan. Accordingly, Mr. Chan Tung Mei is deemed to be interested in the shares under the SFO.

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

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

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

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

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

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

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

(2) Share options of the Company

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

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

Name of Director	Date of Grant	Outstanding at Latest Practicable Date
Lau Hin Kun	18/8/2004	1,600,000
Shaw Kyle Arnold Junior	19/10/2004	1,200,000
Total:		2,800,000

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

Name of Director	Number of ordinary shares held: Corporate interest	Personal interest	Family interest	Total interest	Approximate percentage of shareholding
Cheung Kwai Lan *(Note)*	915,571,428	–	–	915,571,428	54.88%

Note: Madam Cheung Kwai Lan and Mr. Chan Tung Mei have equity interests of 99.89% and 0.11% respectively of the issued share capital of Best Frontier. Madam Cheung Kwai Lan is the spouse of Mr. Chan Tung Mei. Accordingly, Madam Cheung Kwai Lan is deemed to be 100% interested in the shares of Best Frontier under the SFO. As at the Latest Practicable Date, Best Frontier is interested in approximately 38.64% of the issued share capital of the Company which in turn holds 100% shareholding of China Success Enterprises Limited. China Success Enterprises Limited then holds 100% shareholding of Precise Result Profits Limited which directly holds 915,571,428 shares of Aptus Holdings Limited. Besides, Madam Cheung Kwai Lan holds 1,380,000 shares of the Company as at the Latest Practicable Date.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any associated corporations (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 required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

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

As at the Latest Practicable Date, according to the register kept by the Company pursuant to section 336 of SFO, and so far as is known to the Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had, or was deemed or taken to have, an interest or short position in the Company Shares or underlying the Company Shares 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:

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

Notes:

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

2. The 46,600,000 shares represent:

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

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

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

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

Save as disclosed above, as at the Latest Practicable Date, the Directors or chief executive of the Company were not aware of any person (other than a Director or chief executive of the Company) who had an interest or short position in the Company Shares or underlying the Company Shares 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.

4. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

5. SERVICE CONTRACTS

None of the Directors had entered into any service agreements with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

6. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors were aware, none of them or the management shareholders of the Company or their respective associates had any interests in a business which competes or may compete with the business of the Group nor are there any conflicts of interest which any such persons have with the Group.

7. DIRECTORS' INTEREST IN CONTRACTS AND ASSETS

No contract or arrangement in which any Directors is materially interested and which is significant in relation to the business of the Group subsisted as at the Latest Practicable Date.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since 30 June 2006 (the date to which the latest published audited consolidated accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of or leased to any member of the Group.

8. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by a member of the Group within the two years immediately preceding the Latest Practicable Date:

(a) the agreement dated 4 March 2005 entered into between Aptus Holdings Limited and Solarmax Limited in respect of disposal of the entire equity interest of Aptus Medical Group Limited;

(b) the agreement dated 17 June 2005 in relation to the acquisition of 70% equity interest in 華油中匯能源發展有限責任公司 (CNPC Huayou Cu Energy Investment Co. Ltd.) from 中匯(國際)投資發展有限公司 (China United (International) Investment Development Limited) by Good United Management Limited pursuant to the Agreement;

(c) the Conditional Sale and Purchase Agreement entered into between Bemaestro International Limited and China Success Enterprises Limited dated 10 August 2005 in relation to the acquisition the acquisition of a 75% equity interest in Skilltime Management;

(d) the placing agreement as constituted by a letter dated as of 12 August 2005 issued by the Shenyin Wanguo Capital (H.K.) Limited to the Best Frontier Investments Limited and Madam Cheung Kwai Lan in relation to the Placing;

(e) the subscription agreement dated as of 12 August 2005 made between the Company and Best Frontier Investments Limited in relation to the Subscription;

(f) two termination agreements were entered into between (i) the Best Frontier Investments Limited and Madam Cheung Kwai Lan and the Shenyin Wanguo Capital (H.K.) Limited; and (ii) Best Frontier Investments Limited and the Company both on 26 August 2005;

(g) the rescission agreement in relation to the rescission of the Conditional Sale and Purchase Agreement with the Bemaestro International Limited dated 26 August 2005;

(h) the agreement dated 28 November 2005 and entered into between the Mr. Xu Ming, Mr. Li Jun, Mr. Lin Zhiwei, Mr. Miao Jian, Mr. Jiang Chuan, Ms. Liu Ling and Ms. Zhu Yuan and Ace Bingo Group Limited in relation to the acquisition an aggregate of 51% of the registered capital of Shenzhen Bozone IT Co., Limited;

(i) a placing and subscription agreement dated 12 January 2006 was entered into between, inter alia, Best Frontier Investments Limited, the Company and Pacific Foundation Securities Limited;

(j) the agreement dated 15 March 2006 and entered into between Shenzhen Bozone IT Co. Ltd. and Greatest Luck Limited in relation to the acquisition of a 70% interest in Shenzhen Bozone Mobile Technology Company Limited;

(k) the agreement dated 15 March 2006 and entered into between Mr. Xu Ming and Greatest Luck Limited in relation to the acquisition of a 30% interest in Shenzhen Bozone Mobile Technology Company Limited;

(l) a deed of variation dated 17 March 2006 in relation to the agreement dated 28 November 2005 and entered into between the Mr. Xu Ming, Mr. Li Jun, Mr. Lin Zhiwei, Mr. Miao Jian, Mr. Jiang Chuan, Ms. Liu Ling and Ms. Zhu Yuan and Ace Bingo Group Limited in relation to the acquisition an aggregate of 51% of the registered capital of Shenzhen Bozone IT Co., Limited;

(m) an agreement dated 25 July 2006 entered into between Aptus, China Hua You Group Corporation and Changde State-owned Asset Operation Management Company relating to the increase in the registered capital of Changde Hua You Gas Co. Ltd;

(n) an agreement dated 25 July 2006 entered into between Aptus, China Hua You Group Corporation and Beijing Xin Hua Lian Gas Investment Co. Ltd relating to the increase in the registered capital of Hunan Huayou Natural Gas Transportation & Distribution Company Limited;

(o) an agreement dated 13 April 2006 entered into between Loyalion Limited and Human Friendship Apollo Company Limited in relation to the disposal by Loyalion Limited of a 20.83% equity interest in Your Mart Co. Ltd.; and

(p) the agreement dated 4 August 2006 entered into between Loyalion Limited and Davidson Agents in relation to the disposal by Loyalion Limited of a 55% and 100% equity interest in Wuhu Bee & Bee and Zhuhai Bee & Bee respectively.

9. EXPERTS AND CONSENTS

The followings are the qualifications of the experts who have given opinion and advise, which is contained in this circular:

Name	Qualification
W. H. Tang & Partners CPA Limited	Certified Public Accountants

W. H. Tang & Partners CPA Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its respective letters and references to its name in the form and context in which they appear.

As at the Latest Practicable Date, W. H. Tang & Partners CPA Limited:

(a) was not interested, directly or indirectly, in any assets which have been acquired or disposed of by or leased to an member of the Enlarged Group or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2005, being the date to which the latest published audited accounts of the Company were made up; and

(b) did not have any shareholding interest in any member of the Enlarged Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company at 30th Floor, Sunshine Plaza, 353 Lockhart Road, Hong Kong during normal business hours on any weekday other than public holidays, up to and including the date of the EGM:

(a) the memorandum and articles of association of the Company;

(b) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix;

(c) the annual reports of the Company for the last two financial years immediately preceding the issue of this circular;

(d) the circular of the Company dated 22 December 2005 relating to the acquisition of 51% interest in Shenzhen Bozone IT Co., Limited;

(e) the circular of the Company dated 22 May 2006 relating to the disposal of 20.83% interest in Your Mart Co. Limited;

(f) the circular of the Company dated 18 August 2006 relating to the disposal of 55% equity interest in Wuhu Bee & Bee Natural Food Company Limited and 100% equity interest in Zhuhai Fee Trade Zone Bee & Bee Natural Food Company Limited;

(g) the circular of the Company dated 6 October 2006 relating to the proposed bonus issue of shares and bonus issue of warrants;

(h) the service contract dated 18 October 2002 entered into between Madam Cheung Kwai Lan and the Company;

(i) the service contract dated 18 October 2002 entered into between Mr. Chan Tung Mei and the Company;

(j) the service contract dated 18 October 2002 entered into between Mr. Chan Ting and the Company;

(k) the property valuation report of Changde Joint Venture issued by RHL Appraisal Limited, the text of which is set out in Appendix V;

(l) the property valuation report of Hunan Joint Venture issued by RHL Appraisal Limited, the text of which is set out in Appendix VI;

(m) the business valuation report of Changde Joint Venture issued by BMI Appraisals Limited, the text of which is set out in Appendix VII;

(n) the business valuation report of Hunan Joint Venture issued by BMI Appraisals Limited, the text of which is set out in Appendix VIII;

(o) the letter issued from W.H. Tang & Partners CPA Limited and Grand Vinco Capital Limited, the text of which is set out in Appendix IX;

(p) the accountants' report of Changde Huayou Gas Co. Ltd. and Hunan Huayou Natural Gas Transportation & Distribution Company Limited, the text of which are set out in Appendix II and III to this circular;

(q) the letter from W. H. Tang & Partners CPA Limited regarding the proforma financial information of the Enlarged Group as set out in Appendix IV to this circular; and

(r) the written consents referred to in paragraph 9 of this Appendix.

11. GENERAL

(a) The registered office of the Company is at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681GT, George Town, Grand Cayman, British West Indies, Cayman Islands and the head office and principal place of business of the Company is at 30th Floor, Sunshine Plaza, 353 Lockhart Road, Hong Kong. The share registrar and transfer office of the Company is Standard Registrars Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(b) The Compliance Officer of the Company is Mr. Chan Ting.

(c) The Company Secretary of the Company is Mr. Tsui Wing Tak. Mr. Tsui holds a bachelor's degree in economics from Macquarie University, Australia. Mr. Tsui is a member of both the Hong Kong Institute of Certified Public Accountants and CPA Australia.

(d) The Qualified Accountant of the Company is Mr. Kwan Yiu Ming, Patrick. Mr. Kwan holds a bachelor degree of commerce in accounting from the Curtin University of Technology in Australia. Mr. Kwan is a fellow member of Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

(e) The Company established an audit committee on 18 October 2000 comprising 3 independent non-executive Directors with written terms of reference in compliance with Rules 5.28 to 5.29 of the GEM Listing Rules. 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 financial reporting process and internal control procedures of the Group. The details of the members are as follows:

Mr. Tian He Nian, aged 66, 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.

Mr. Zhao Zhi Ming, aged 64, an independent non-executive Director. He is the committee member of 國家開發銀行專家委員會 (the Specialist Committee of the China Development Bank) and the Professor of 遼寧工程技術大學 (LiaoNing Technical University). After graduation from the University in 1965, he had worked for several governmental authorities of the PRC, such as 天津市政府部門 (Tianjin Government), 國家能源投資公司 (National Energy Investment Company of the PRC) and 國家開發銀行 (China Development Bank). Mr. Zhao had been engaged in the general management, investment, review and approval, and risk management of some sizable national infrastructure projects in the PRC. He has extensive knowledge of and experience in management, investment and capital markets. He is also an independent non-executive director and audit committee member of Aptus. He joined the Group in December 2005.

Mr. To Yan Ming, Edmond, aged 34, an independent non-executive Director. He 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, Certified Public Accountants. He is a member of both the CPA Australia and Hong Kong Institute of Certified Public Accounts. He worked for one of the international accounting firms, Deloitte Touche Tohmatsu and has over 8 years of experience in auditing, accounting, flotation and taxation matters. He is also an independent non-executive director and audit committee member of Aptus. He joined the Group in January 2006.

(f) The English text of this circular shall prevail over the Chinese text in case of inconsistency.

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)

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the "Extraordinary General Meeting") of the shareholders of China Vanguard Group Ltd. (the "Company") will be held at the 30th Floor, Sunshine Plaza, No. 353 Lockhart Road, Hong Kong on 7 November 2006 at 2:00 p.m. to consider and, if thought fit, pass the following resolution as an ordinary resolution:

"**THAT** (i) the conditional capital injection agreement dated 25 July 2006 entered into among 中國華油集團公司 (China Huayou Group Contribution), Changde State-owned Asset Operation Management Company and Aptus Holdings Limited, a non-wholly owned subsidiary of the Company relating to, among other matters, the increase in the registered capital of a joint venture under the name of 常德華油燃氣有限公司 (Changde Huayou Gas Co. Ltd.) and (ii) the conditional capital injection agreement dated 25 July 2006 entering into among 中國華油集團公司 (China Huayou Group Contribution), 北京新華聯燃氣投資有限公司 (Beijing Xin Hua Lian Gas Investments Co. Ltd.) and Aptus Holdings Limited, a non-wholly owned subsidiary of the Company relating to, among other matters, the increase in the registered capital of a joint venture under the name of 湖南華油天然氣輸配有限責任公司 (Hunan Huayou Natural Gas Transportation & Distribution Company Limited) (collectively the "Investments") be and are hereby approved, ratified and confirmed in all respects and that any one director of the Company be and is hereby authorised to do or execute all such acts or such other documents which the director may deem necessary, desirable or expedient to carry into effect or to give effect to the Investments."

By order of the Board
China Vanguard Group Ltd.
Chan Ting
Director

Hong Kong, 19 October 2006

Registered office:
Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies
Cayman Islands

Principal place of business in Hong Kong:
30th Floor
Sunshine Plaza
No. 353 Lockhart Road
Hong Kong

* *for identification purpose only*

Notes:

1. A member of the Company entitled to attend and vote at the Extraordinary General Meeting convened by the above notice is entitled to appoint one or more proxies to attend and, on a poll, vote instead of such member. A proxy need not be a member of the Company.

2. In the case of joint holders of shares in the Company, the vote of the senior who tenders a vote whether in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holders), seniority being determined by the order in which names stand in the register of members.

3. In order to be valid, the form of proxy together with a power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the principal place of business of the Company at the 30th Floor, Sunshine Plaza, No. 353 Lockhart Road, Hong Kong not less than 48 hours before the time appointed for holding the Extraordinary General Meeting (or any adjournment thereof).

4. As at the date of this notice, the directors of the Company are Madam Cheung Kwai Lan, Mr. Chan Tung Mei, Mr. Lau Hin Kun, Mr. Chan Ting, Mr. Shaw Kyle Arnold Junior, Mr. Tian He Nian, Mr. Zhao Zhi Ming and Mr. To Yan Ming, Edmond.