



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)



INTERIM REPORT  
2011/2012

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

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

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

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*This report, for which the board of directors of China Vanguard Group Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Exchange for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*

## RESULTS

The board (the "Board") of directors (the "Directors") of China Vanguard Group Limited (the "Company") announces that the unaudited consolidated results of the Company and its subsidiaries (together the "Group") for the three months and six months ended 31 December 2011, together with the comparative unaudited figures for the corresponding periods in 2010, are as follows:

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the three months and six months ended 31 December 2011

	Notes	Three months ended 31 December		Six months ended 31 December	
		2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
<b>CONTINUING OPERATIONS</b>					
Revenue	2	<b>28,239</b>	23,719	<b>56,589</b>	54,051
Cost of sales		<b>(10,510)</b>	(3,614)	<b>(20,336)</b>	(17,556)
Gross profit		<b>17,729</b>	20,105	<b>36,253</b>	36,495
Other revenue		<b>1,673</b>	2,566	<b>8,537</b>	2,947
Selling and distribution costs		<b>(3,231)</b>	(4,519)	<b>(7,076)</b>	(7,356)
Administrative expenses		<b>(24,141)</b>	(31,067)	<b>(42,837)</b>	(49,852)
Finance costs		<b>(639)</b>	(1,496)	<b>(1,263)</b>	(2,373)
<b>LOSS BEFORE TAXATION</b>		<b>(8,609)</b>	(14,411)	<b>(6,386)</b>	(20,139)
Income tax expenses	5	<b>(1,098)</b>	322	<b>(1,599)</b>	(1,001)
<b>LOSS FOR THE PERIOD FROM CONTINUING OPERATIONS</b>		<b>(9,707)</b>	(14,089)	<b>(7,985)</b>	(21,140)
<b>DISCONTINUED OPERATIONS</b>					
Profit/(loss) for the period from discontinued operations	18	-	(16,720)	-	40,600
<b>PROFIT/(LOSS) FOR THE PERIOD</b>		<b>(9,707)</b>	(30,809)	<b>(7,985)</b>	19,460

	Notes	Three months ended 31 December		Six months ended 31 December	
		2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
<b>OTHER COMPREHENSIVE INCOME</b>					
Exchange difference on translation of financial statements of foreign operations					
Continuing operations		53	1,844	4,883	1,879
Discontinued operations		-	(42)	-	-
Capital reserve arising from acquisition of non-controlling interests in subsidiaries	17	-	-	3,672	-
		53	1,802	8,555	1,879
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>					
		(9,654)	(29,007)	570	21,339
Profit/(loss) for period attributable to:					
Equity holders of the Company					
Continuing operations		(9,256)	(16,105)	(7,414)	(20,387)
Discontinued operations		-	(16,720)	-	40,600
		(9,256)	(32,825)	(7,414)	20,213
Non-controlling interests					
Continuing operations		(451)	2,016	(571)	(753)
Discontinued operations		-	-	-	-
		(451)	2,016	(571)	(753)
<b>PROFIT/(LOSS) FOR THE PERIOD</b>					
		(9,707)	(30,809)	(7,985)	19,460
Total comprehensive income for the period attributable to:					
Equity holders of the Company					
Continuing operations		(7,817)	(14,261)	693	(18,508)
Discontinued operations		-	(16,762)	-	40,600
		(7,817)	(31,023)	693	22,092
Non-controlling interest					
Continuing operations		(1,837)	2,016	(123)	(753)
Discontinued operations		-	-	-	-
		(1,837)	2,016	(123)	(753)
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>					
		(9,654)	(29,007)	570	21,339
EARNINGS/(LOSS) PER SHARE (HK Cents) 7					
From continuing and discontinued operations:					
Basic		(0.28)	(1.02)	(0.23)	0.63
Diluted		N/A	N/A	N/A	0.63
From continuing operations:					
Basic		(0.28)	(0.50)	(0.23)	(0.63)

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

		(Unaudited) 31 December 2011	(Audited) 30 June 2011
	Notes	HK\$'000	HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment		23,724	29,987
Goodwill		1,090,848	1,090,848
Other intangible assets		934	–
Available-for-sale financial asset		64,140	64,140
		<b>1,179,646</b>	1,184,975
<b>Current assets</b>			
Inventories		5,360	4,305
Trade and other receivables and prepayments	9	39,626	29,935
Tax recoverable		–	10
Pledged bank deposits		5,192	5,157
Bank balances and cash		70,658	68,155
		<b>120,836</b>	107,562
<b>Current liabilities</b>			
Trade and other payables	10	39,662	31,245
Tax liabilities		2,205	1,406
Derivative financial instruments	11	116	143
Convertible bonds – due within one year	11	7,010	–
Bank and other borrowings – due within one year		89,128	60,405
		<b>138,121</b>	93,199
<b>Net current assets</b>		<b>(17,285)</b>	14,363
<b>Total assets less current liabilities</b>		<b>1,162,361</b>	1,199,338
<b>Non-current liabilities</b>			
Convertible bonds		–	8,185
<b>Net assets</b>		<b>1,162,361</b>	1,191,153
<b>Capital and reserves</b>			
Share capital	13	32,719	32,219
Reserves		1,112,906	1,104,344
Equity attributable to equity holders of the Company		1,145,625	1,136,563
Non-controlling interest		16,736	54,590
<b>Total equity</b>		<b>1,162,361</b>	1,191,153

## CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 31 December 2011

	Six months ended	
	31 December	
	2011	2010
	HK\$'000	HK\$'000
Net cash outflow from operating activities	<b>(7,903)</b>	(15,768)
Net cash inflow/(outflow) from investing activities	<b>(29,855)</b>	25,616
Net cash inflow/(outflow) from financing activities	<b>35,408</b>	(51,751)
Net decrease in cash and cash equivalents	<b>(2,350)</b>	(41,903)
Cash and cash equivalents at beginning of period	<b>68,155</b>	105,386
Effect of foreign exchange rates changes	<b>4,853</b>	211
Cash and cash equivalents at end of period	<b>70,658</b>	63,694

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 31 December 2011

	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Employee share-based compensation reserve HK\$'000	Share option reserve HK\$'000	Translation reserve HK\$'000	Special reserve HK\$'000	Capital reserve HK\$'000	Retained profits/ losses (Accumulated) HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 July 2011	32,219	2,157,154	234	35,572	11,092	20,722	(1)	-	(1,120,429)	54,590	1,191,153
Loss for the period	-	-	-	-	-	-	-	-	(7,414)	(571)	(7,985)
Total other comprehensive income	-	-	-	-	-	4,435	-	3,672	-	448	8,555
<b>Total comprehensive income</b>	-	-	-	-	-	<b>4,435</b>	-	<b>3,672</b>	<b>(7,414)</b>	<b>(123)</b>	<b>570</b>
Transfer of deferred income	-	-	-	-	-	-	-	-	-	(6,587)	(6,587)
Acquisition of non-controlling interests	-	-	-	-	-	(31)	-	-	-	(31,144)	(31,175)
Share issued on exercised of warrants	500	7,900	-	-	-	-	-	-	-	-	8,400
<b>At 31 December 2011</b>	<b>32,719</b>	<b>2,165,054</b>	<b>234</b>	<b>35,572</b>	<b>11,092</b>	<b>25,126</b>	<b>(1)</b>	<b>3,672</b>	<b>(1,127,843)</b>	<b>16,736</b>	<b>1,162,361</b>

For the six months ended 31 December 2010

	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Employee share-based compensation reserve HK\$'000	Share option reserve HK\$'000	Translation reserve HK\$'000	Special reserve HK\$'000	Capital reserve HK\$'000	Retained profits/ losses (Accumulated) Discontinued operations HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 July 2010	32,119	2,155,574	234	35,572	11,092	12,661	(1)	(1,181,868)	441,190	469,020	1,975,593
Loss for the period	-	-	-	-	-	-	-	(20,387)	40,600	(753)	19,460
Total other comprehensive income	-	-	-	-	-	1,879	-	-	-	-	1,879
<b>Total comprehensive income</b>	-	-	-	-	-	<b>1,879</b>	-	<b>(20,387)</b>	<b>40,600</b>	<b>(753)</b>	<b>21,339</b>
Disposal of a subsidiary	-	-	-	-	-	-	-	196,778	(481,790)	(450,531)	(735,543)
<b>At 31 December 2010</b>	<b>32,119</b>	<b>2,155,574</b>	<b>234</b>	<b>35,572</b>	<b>11,092</b>	<b>14,540</b>	<b>(1)</b>	<b>(1,005,477)</b>	<b>-</b>	<b>17,736</b>	<b>1,261,389</b>

Note:

- Capital reserve for the six months ended 31 December 2011 of approximately HK\$3,672,000 arose from the acquisition of 49% and 1% interests in Cheerfull Group Holdings Limited and Shenzhen Longjiang Fung Cai IT Co. Ltd for cash consideration of HK\$27,200,000 and RMB252,100 (approximately HK\$303,000) respectively.

The capital reserve arose from the acquisition of the above non-controlling interests is calculated as follows:

	HK\$'000
Cash consideration paid	(27,503)
Carrying amount of non-controlling interests	31,144
Exchange difference	31
<b>Capital reserve arose from the acquisition</b>	<b>3,672</b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended 31 December 2011

## 1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong which include Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values.

The principal accounting policies used in the unaudited consolidated results are consistent with those followed in the preparation of the Group's financial statements for the year ended 30 June 2011. The financial statements are unaudited but have been reviewed by the Audit Committee.

In the current period, the Group has newly adopted, for the first time, the following new and revised standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for the Group's financial year commencing on 1 July 2011.

HKAS 24 (Revised 2009)	Related party disclosures
HKFRSs (Amendments)	Improvements to HKFRSs 2010
HKFRS 7 (Amendments)	Disclosures – Transfers of financial assets
HK(IFRIC)-INT 14 (Amendments)	Prepayments of a minimum funding requirement

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

HKAS 1 (Amendments)	Presentation of items of other comprehensive income <sup>2</sup>
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets <sup>1</sup>
HKAS 19 (Revised 2011)	Employee benefits <sup>3</sup>
HKAS 27 (Revised 2011)	Separate financial statements <sup>3</sup>
HKAS 28 (Revised 2011)	Investments in associates and joint ventures <sup>3</sup>
HKFRS 9	Financial instruments <sup>3</sup>
HKFRS 10	Consolidated financial statements <sup>3</sup>
HKFRS 11	Joint arrangements <sup>3</sup>
HKFRS 12	Disclosure of interests in other entities <sup>3</sup>
HKFRS 13	Fair value measurement <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2012

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2012

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2013



## 2. REVENUE

The principal activities of the Group are (i) provision of lottery-related services; (ii) provision of entertainment VAS services and (iii) food and catering services.

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

## 3. SEGMENT INFORMATION

### (a) Segment revenue and results

The following is an analysis of the Group's revenue and results by operating segment for the six months ended 31 December 2011:

Six months ended 31 December 2011 (Unaudited)

	Continuing operations			Total HK\$'000	Discontinued operations HK\$'000	Consolidated HK\$'000
	Entertainment VAS HK\$'000	Lottery- related services HK\$'000	Others HK\$'000			
Segment revenue:						
Sales to external customers	25,420	27,233	3,936	56,589	-	56,589
Segment results	(81)	6,109	(298)	5,730	-	5,730
Unallocated income	-	-	-	7,036	-	7,036
Unallocated expenses	-	-	-	(17,889)	-	(17,889)
Finance costs	-	-	-	(1,263)	-	(1,263)
Loss on investment	-	-	-	-	-	-
Loss before taxation				(6,386)	-	(6,386)
Income tax expenses				(1,599)	-	(1,599)
Loss for the period				(7,985)	-	(7,985)
Amount included in the measure of segment profit or loss or segment assets:						
Additions to property, plant and equipment	-	(184)	(481)		-	
Depreciation and amortization	(1,724)	(5,784)	(197)		-	
Other non-cash expenses	-	-	-		-	

### 3. SEGMENT INFORMATION (Continued)

#### (a) Segment revenue and results (Continued)

The following is an analysis of the Group's revenue and results by operating segment for the six months ended 31 December 2010:

Six months ended 31 December 2010 (Unaudited)

	Continuing operations					
	Entertainment	Lottery-related	Others	Total	Discontinued	Consolidated
	VAS	services			operations	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Segment revenue:						
Sales to external customers	20,690	29,914	3,447	54,051	5,617	59,668
Segment results	(3,430)	9,577	(1,386)	4,761	(367)	4,394
Unallocated income	-	-	-	2,714	49	2,763
Unallocated expenses	-	-	-	(25,241)	(983)	(26,224)
Finance costs	(2)	-	-	(2,373)	(3,624)	(5,997)
Loss on investment	-	-	-	-	(41,606)	(41,606)
Gain on deconsolidation of HK Life	-	-	-	-	87,141	87,141
Profit/(loss) before taxation				(20,139)	40,610	20,471
Income tax expenses				(1,001)	(10)	(1,011)
Profit/(loss) for the period				(21,140)	40,600	19,460
Amount included in the measure of segment profit or loss or segment assets:						
Additions to property, plant and equipment	(135)	(2,379)	(28)		-	
Depreciation and amortization	(1,852)	(5,621)	(450)		(698)	
Other non-cash expenses	-	-	-		(3,624)	

### 3. SEGMENT INFORMATION (Continued)

#### (b) Segment assets

The following is an analysis of the Group's assets and liabilities by operating segment:

##### As at 31 December 2011 (Unaudited)

	Continuing operations					
	Entertainment	Lottery-related	Others	Discontinued		
	VAS	services		Total	operations	Consolidated
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Assets						
Segment assets	1,070,150	137,082	4,985	1,212,217	-	1,212,217
Unallocated assets	-	-	-	88,265	-	88,265
Total assets				1,300,482	-	1,300,482
Liabilities						
Segment liabilities	33,803	3,019	802	37,624	-	37,624
Unallocated liabilities	-	-	-	4,363	-	4,363
Borrowings	-	-	-	89,008	-	89,008
Convertible bonds	-	-	-	7,126	-	7,126
				138,121	-	138,121

##### As at 30 June 2011 (Audited)

	Continuing operations					
	Entertainment	Lottery-related	Others	Discontinued		
	VAS	services		Total	operations	Consolidated
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Assets						
Segment assets	1,055,258	146,510	5,510	1,207,278	-	1,207,278
Unallocated assets	-	-	-	85,259	-	85,259
Total assets				1,292,537	-	1,292,537
Liabilities						
Segment liabilities	25,167	3,615	998	29,780	-	29,780
Unallocated liabilities	-	-	-	2,871	-	2,871
Borrowings	-	-	-	60,405	-	60,405
Convertible bonds	-	-	-	8,328	-	8,328
				101,384	-	101,384

#### 4. PROFIT/(LOSS) FROM OPERATIONS (UNAUDITED)

Profit/(loss) from operations has been arrived at after charging/(crediting):

	Continuing operations		Discontinued operations		Consolidated	
	Six months ended		Six months ended		Six months ended	
	31 December		31 December		31 December	
	2011	2010	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost of inventories sold	1,913	1,933	-	758	1,913	2,691
Amortisation of prepaid lease	-	-	-	648	-	648
Depreciation of property, plant and equipment	7,242	6,371	-	50	7,242	6,421
Interest on borrowings	592	535	-	-	592	535
Interest on convertible bonds	327	1,838	-	3,624	327	5,462
Interest income	(268)	(173)	-	-	(268)	(173)

#### 5. INCOME TAX EXPENSES

No provision for Hong Kong profits tax has been made as the Group did not have any assessable profits arising in Hong Kong for the three months and six months ended 31 December 2011 (three months and six months ended 31 December 2010: HK\$nil).

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

#### 6. DIVIDEND

The Board does not recommend the payment of any dividend for the three months and six months ended 31 December 2011 (three months and six months ended 31 December 2010: HK\$nil).

## 7. EARNING/(LOSS) PER SHARE (UNAUDITED)

### For continuing and discontinued operations

The calculation of the basic and diluted earnings/(loss) per share attributable to the ordinary equity holders of the Company is based on the following data:

#### Earnings/(loss)

	Three months ended		Six months ended	
	31 December		31 December	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Earnings/(loss) for the purposes of basic and diluted earnings/(loss) per share	<b>(9,256)</b>	(32,825)	<b>(7,414)</b>	20,213

#### Number of shares

	Three months ended		Six months ended	
	31 December		31 December	
	2011	2010	2011	2010
	'000	'000	'000	'000
Weighted average number of ordinary shares for the purposes of basic earnings/(loss) per share	<b>3,268,524</b>	3,211,894	<b>3,265,209</b>	3,211,894
Effect of dilutive potential ordinary shares:				
Share options	<b>425</b>	–	<b>5,605</b>	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b>3,268,949</b>	3,211,894	<b>3,270,814</b>	3,211,894

No diluted loss per share has been presented for continuing and discontinued operations for the three months and six months ended 31 December 2011 and for the three months ended 31 December 2010, as exercise of the outstanding share options, warrants and convertible bonds of the Company would result in a decrease in loss per share.

## 7. EARNING/(LOSS) PER SHARE (UNAUDITED) (Continued)

### From continuing operations

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

	Three months ended		Six months ended	
	31 December	2010	31 December	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit/(loss) for the period attributable to equity holders of the Company	(9,256)	(32,825)	(7,414)	20,213
Less: Profit/(loss) for the period from discontinued operations	-	(16,720)	-	40,600
Loss for the purposes of basic loss per share from continuing operations	(9,256)	(16,105)	(7,414)	(20,387)

The denominator used is the same as those detailed above for basic earnings/(loss) per share.

No diluted loss per share has been presented for continuing operations for both periods as exercise of outstanding share options, warrants and convertible bonds of the Company would result in a decrease in loss per share.

### From discontinued operations

Since there is no profit or loss from discontinued operations for the three months and six months ended 31 December 2011, no basic and diluted earnings per share for these periods have been presented.

Basic earnings/loss per share for the discontinued operations for the three months and six months ended 31 December 2010 were loss of approximately HK0.52 cent and profit of approximately HK1.26 cents per share respectively based on the loss of approximately HK\$16,720,000 and profit of approximately HK\$40,600,000 respectively.

Diluted earnings per share for the discontinued operations for six months ended 31 December 2010 was profit of approximately HK1.26 cents based on the profit of approximately HK\$40,600,000. No diluted loss per share has been presented for discontinued operations for the three months ended 31 December 2010, as exercise of outstanding share options, warrants and convertible bonds of the Company would result in a decrease in loss per share.

## 8. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31 December 2011, the Group acquired items of plant and machinery with a cost of approximately HK\$974,000 (six months ended 31 December 2010: approximately HK\$830,000). The Group did not have any material disposal of plant and machinery for the six months ended 31 December 2011 (six months ended 31 December 2010: no material disposal).

## 9. TRADE RECEIVABLES

Payment terms with customer are mainly on credit. Invoices are normally payable within 30 days of issuance.

An ageing analysis of the Group's trade receivables at the balance sheet dates, is as follows:

	<b>(Unaudited)</b> <b>31 December</b> <b>2011</b> <b>HK\$'000</b>	(Audited) 30 June 2011 HK\$'000
0 to 30 days	<b>11,779</b>	13,763
31 to 60 days	<b>2,174</b>	38
61 to 365 days	<b>1,196</b>	1,491
Over 1 year	<b>1,388</b>	1,212
	<b>16,537</b>	16,504

## 10. TRADE PAYABLES

An ageing analysis of the Group's trade payables at the balance sheet dates, is as follows:

	<b>(Unaudited)</b> <b>31 December</b> <b>2011</b> <b>HK\$'000</b>	(Audited) 30 June 2011 HK\$'000
0 to 30 days	<b>2,683</b>	2,566
31 to 120 days	<b>8,048</b>	8,104
121 to 180 days	<b>5,365</b>	1,947
181 to 365 days	<b>8,443</b>	4,978
Over 1 year	<b>414</b>	291
	<b>24,953</b>	17,888

## 11. CONVERTIBLE BONDS (UNAUDITED)

The Company adhered the convertible bonds issued by its wholly-owned subsidiary, Grand Promise International Limited ("GPIL Bonds" and "GPIL" respectively) on 11 April 2008 with a principal amount of US\$35,000,000. The GPIL Bonds holders are entitled to convert the convertible bonds into ordinary shares of the Company at a conversion price of HK\$0.8 per each ordinary share. If any of the convertible bonds have not been converted, they will be redeemed on the maturity date (i.e. 30 November 2012) at 141.06% of the outstanding principal amount of the convertible bonds.

## 11. CONVERTIBLE BONDS (UNAUDITED) (Continued)

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

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

	<b>Conversion option derivative component</b> <i>HK\$'000</i>	<b>Liability component</b> <i>HK\$'000</i>
At 1 July 2011	143	8,185
Imputed finance cost	–	328
Changes of fair value	–	–
Exchange difference	–	150
Redemption of the convertible bonds partially	(27)	(1,653)
At 31 December 2011	116 <i>(Note 1)</i>	7,010 <i>(Note 2)</i>

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

*Note 2:* Total of HK\$ nil (31 December 2010: HK\$26,896,000) is recorded as non-current liabilities.

## 12. WARRANTS

On 26 August 2010 the Company issued an aggregate of 40,000,000 warrants at the exercise price of HK\$0.168 per share to the then holders of the GPIL Bonds expiring on 26 August 2011, which were exercised in full in August 2011.

On 11 January 2011 the Company issued 30,000,000 warrants at the exercise price of HK\$0.168 per share to the then holder of the GPIL Bonds. During the period, 10,000,000 warrants have been exercised. Subsequent to the reporting period, 10,000,000 warrants remained unexercised and expired on 11 January 2012.

## 13. SHARE CAPITAL

	<b>Number of shares '000</b>	<i>HK\$'000</i>
<i>Authorized</i>		
At 1 July 2011 and 31 December 2011 shares of HK\$0.01 each	<b>20,000,000</b>	200,000
<i>Issued and fully paid:</i>		
At 1 July 2011	<b>3,221,894</b>	32,219
Shares issued on exercise of warrants <i>(Note 12)</i>	<b>50,000</b>	500
At 31 December 2011	<b>3,271,894</b>	32,719



### 13. SHARE CAPITAL (Continued)

#### Share options

The Company operates the share option scheme, details of the share option scheme of the Company are set out in the paragraph headed "Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation". At 31 December 2011, the Company had outstanding share options entitling the holders to subscribe for 83,050,000 shares in the Company.

### 14. PLEDGE OF ASSETS

As at 31 December 2011, the Group has pledged all the issued and outstanding shares of Birdview Group Limited (a wholly-owned subsidiary of GPIL) together with all proceeds in favor of the holder(s) of the GPIL Bonds previously issued by GPIL; and by the deeds of adherence on completion of the acquisition of GPIL in April 2008, the convertible bonds were taken up by the Company.

At 31 December 2011, the Group has pledged its bank deposits of approximately HK\$5,192,000 (30 June 2011: approximately HK\$5,157,000) as security for the general banking facilities granted to the Group.

### 15. OPERATING LEASES COMMITMENTS

#### The Group as lessee

At 31 December 2011, the Group was committed to make the following future minimum lease payments under non-cancellable operating leases which fall due as follows:

#### Continuing operations

	(Unaudited) 31 December 2011 HK\$'000	(Audited) 30 June 2011 HK\$'000
Within one year	7,514	6,421
In the second to fifth year inclusive	3,808	5,348
	<b>11,322</b>	11,769

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

#### The Group as lessor

At 31 December 2011, the Group had no contract as lessor.

### 16. CAPITAL COMMITMENTS

	(Unaudited) 31 December 2011 HK\$'000	(Audited) 30 June 2011 HK\$'000
<b>Continuing operations</b>		
Capital expenditure in respect of investments in of subsidiaries	7,345	–
Capital expenditure in respect of acquisition additional equity in a subsidiary	–	27,500
Capital expenditure in respect of acquisition of investment	240,000	240,000
	<b>247,345</b>	267,500

## 17. ACQUISITION OF NON-CONTROLLING INTERESTS (UNAUDITED)

In July 2011, the Group completed the acquisition of 49% and 1% interests in Cheerfull Group Holdings Limited and Shenzhen Longjiang Fung Cai IT Co. Ltd for cash consideration of HK\$27,200,000 and RMB252,100 (approximately HK\$303,000) respectively. Upon completion of the acquisition, the Group increased its ownership from 51% to 100% and 99% to 100% respectively.

Capital reserve arose from the acquisition of the above non-controlling interests is calculated as follows:

	<i>HK\$'000</i>
Cash consideration paid	(27,503)
Carrying amount of non-controlling interests	31,144
Exchange difference	31
Capital reserve arose from the acquisition	3,672

## 18. DISCONTINUED OPERATIONS

On 17 September 2010 the Company announced its intention to dispose of the Group's remaining equity interest in Hong Kong Life Group Holdings Limited (formerly known as Aptus Holdings Limited ("HK Life")), and HK Life has ceased to be an indirect non wholly-owned subsidiary of the Company. As a result of such, HK Life is considered to be discontinued operations of the Group.

The results of the discontinued operations included in the consolidated statement of comprehensive income are set out below:

	<b>(Unaudited)</b>	
	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2011</b>	<b>2010</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Profit/(loss) for the period from discontinued operations</b>		
Revenue and other revenue	–	5,667
Expenses	–	(52,198)
Gain on disposal of HK Life	–	87,141
Profit before taxation	–	40,610
Income tax	–	(10)
Profit for the period from discontinued operations	–	40,600
Operating cashflows	–	(4,503)
Investing cashflows	–	10,212
Financing cashflows	–	(323)
Net increase in cashflows	–	5,386

## 19. RELATED PARTY TRANSACTIONS (UNAUDITED)

### Compensation of directors and key management personnel

The remuneration of directors and other members of key management during the three months and six months ended 31 December 2011 was as follows:

	Three months ended 31 December 2011		Six months ended 31 December 2011	
	HK\$'000	2010 HK\$'000	HK\$'000	2010 HK\$'000
Short-term benefits	<b>1,417</b>	5,404	<b>2,857</b>	8,668
Post-employment benefits	<b>9</b>	24	<b>18</b>	49
	<b>1,426</b>	5,428	<b>2,875</b>	8,717

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

## 20. SEASONALITY

The Group considers that the revenues from (i) provision of the karaoke content management service system and license fee collection business, a technology platform for intellectual property protection and value-added services for the karaoke industry (in the entertainment sector) in the PRC; and (ii) provision of lottery-related businesses in the PRC; are not subject to material seasonal fluctuations.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

The Group is principally engaged in the provision of lottery-related software, equipment and services to the Welfare Lottery Issuing Centres in China and also the provision of equipment and value added services ("VAS"), such as royalty collection and lottery related services (amongst others), to the entertainment industry in China. For the six months ended 31 December 2011 ("Period 2011") the Group recorded total revenue of HK\$56,589,000, up 4.7% over the previous corresponding period's HK\$54,051,000. The increase in revenue was predominantly due to an increase in revenue at the Group's entertainment value added services and royalty collection operations. For Period 2011, the Group recorded a net loss attributable to equity holders of the Company of HK\$7,414,000 against a net profit of HK\$20,213,000 in the previous corresponding period ("Period 2010"). Factoring out exceptional profits of HK\$40,600,000 from discontinued operations in Period 2010, net losses from continuing operations were reduced by 63.6% to HK\$7,414,000 for Period 2011 against net losses of HK\$20,387,000 for Period 2010. The reduction in losses would have been even larger were it not for rising costs at Shenzhen Shang-Gang Technology Co. Limited and its subsidiaries ("Shang-Gang Group"), a wholly-owned subsidiary which began operations in early 2011 to develop synergistic products and businesses between the Group's operating divisions.

Revenues from the lottery-related operations amounted to HK\$27,233,000 for Period 2011, a decrease of about 9% as compared to HK\$29,914,000 recorded for Period 2010 while gross profit margin increased by 3% from 89% for Period 2010 to 92% for Period 2011. Attributable revenues from the Karaoke VAS operations amounted to HK\$25,420,000, for the Period 2011, a period-on-period increase of about 22.9%.

With better cost control measures in place, the Group operating costs for continuing operations for Period 2011 were about HK\$51,176,000 as compared to about HK\$59,581,000 for Period 2010, representing a reduction of HK\$8,405,000 or a period-on-period improvement of 14%.

### Business Review

Our operations continued their steady progress during Period 2011 as illustrated by the 63.6% reduction in recurrent losses for continuing operations compared to the previous corresponding period.

## ***Lottery-related Operations***

The Group's traditional lottery-related operations include a variety of lottery-related software, equipment and services for provision to the Welfare Lottery in China. These operations work with the Welfare Lottery Centres of Shenzhen, Heilongjiang and Zhejiang. The acquisition of Bozone's minorities was completed in July 2011 lifting the Group's ownership of the operations from 51% to 100%.

The Group is continuing to make strides in enhancement and upgrading of existing products and services. In July 2011, the Group secured World Lottery Association (WLA) Associate Membership. In October 2011, the Group gained ISO 27001:2005 accreditation, an International Standard for Information Security. Further to this, the Group has now applied for WLA Security Control Standard (WLA SCS) certification. This is the lottery sector's only internationally recognized security standard. The WLA SCS couples a comprehensive information security management baseline incorporating ISO 27001 with additional lottery-specific security controls representing current security best practice.

We are also broadening its product and service offerings. As mentioned in the 1Q 2011 results, we are pursuing the introduction of its newly developed "Happy Ten" game into a number of potential jurisdictions and is working with a top international lottery equipment company on exploring and developing potential areas of cooperation in the Welfare Lottery space. Further to this, the Group is now also exploring lottery logistics-related products and services.

We are now moving downstream into establishment of point of sales outlets for Welfare Lottery products. The first outlet was recently opened in Tianjin and we are currently looking for more sites in Tianjin as well as further similar opportunities in other jurisdictions in China. Currently we are exploring point of sales establishment in three additional jurisdictions outside Tianjin.

## ***Entertainment VAS operations***

Our entertainment VAS operations which currently focus on the provision of video-on-demand ("VOD") equipment, royalty collection and lottery related services (amongst others) to the karaoke industry continues to make good progress.

Our VOD system is the industry's first VAS and lottery capable set top box based in-room song selection system. Launched in the last fiscal year, response by the market has been very positive and sales continue to proceed well. Not only is the system state of the art in terms of song selection, audio and video output, special effects and drinks and food ordering, it is also capable of linking to the Welfare Lottery Issuing Centre for lottery game play and it is also capable of running advertising via multiple advertising formats: on the song selection screen, the screen where the songs are being displayed or another totally dedicated screen for advertising.

This system provides us with an exclusive integrated technology platform to turn karaoke rooms into lottery point of sales. In December 2010, we gained Chongqing Welfare Lottery Issuing Centre's approval, using this system, to offer Welfare Lottery games in karaoke venues in Chongqing on an exclusive basis. This enables us to work with karaoke venues in Chongqing to establish them as lottery point of sales. During Period 2011, we rolled out, on a limited basis, our system to various venues in Chongqing to optimise games and venue formats before an aggressive rollout. The system and equipment has been performing admirably, has been well received by the market and has gained strong support from the Chongqing Welfare Lottery Issuing Centre. In mid September to October 2011, Chongqing Welfare Lottery Issuing Centre bundled KTV lottery outlets and specialty stores together and held a promotion campaign in the form of an organized competition. This promotion saw over 5,000 competitors registered and saw average daily sale per terminal exceed expectations proving the feasibility of the KTV lottery outlets and specialty stores.

Meanwhile, the team has working diligently on replicating the success in Chongqing and the idea of establishing karaoke venues as points of sales for Welfare Lottery products has been well received by Welfare Lottery Centres in a number of jurisdictions.

## **Financial resources and liquidity**

As at 31 December 2011, the Group had cash and bank balances of approximately HK\$75,850,000 (30 June 2011: approximately HK\$73,312,000). Net asset value per share was approximately HK\$0.4 (30 June 2011: approximately HK\$0.4), and current assets stood at approximately HK\$120,836,000 (30 June 2011: approximately HK\$107,562,000). The gearing ratio was 0% as at 31 December 2011 (30 June 2011: approximately 0.7%). Gearing ratio is calculated as non-current liabilities divided by total equity.

## **Exposure to fluctuations in exchange rates and any related hedges**

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

## **Capital structure**

During the six months ended 31 December 2011, there was no material change in the capital structure of the Group.

## **Charges on the Group assets**

As at 31 December 2011, the Group has pledged all the issued and outstanding shares of Birdview Group Limited (a wholly-owned subsidiary of GPIL) together with all proceeds in favor of the holder(s) of the convertible bonds previously issued by GPIL; and by the deeds of adherence on completion of acquisition of GPIL in April 2008, the convertible bonds were taken up by the Company.

At 31 December 2011, the Group has pledged its bank deposits of approximately HK\$5,192,000 (30 June 2011: approximately HK\$5,157,000) as security for the general banking facilities granted to the Group.

## **Contingent liabilities**

The Group did not have any contingent liabilities as at 31 December 2011 (30 June 2011: Nil).

## **Commitments**

The Group had capital commitments of approximately HK\$247,345,000 and operating leases commitments as lessee of approximately HK\$11,322,000 from continuing operations as at 31 December 2011 (30 June 2011: approximately HK\$267,500,000 and approximately HK\$11,769,000 respectively).

## **Significant investments, acquisitions and disposal**

In July 2011, the Group completed the acquisition of 49% and 1% interests in Cheerfull Group Holdings Limited and Shenzhen Longjiang Fung Cai IT Co. Ltd for cash consideration of HK\$27,200,000 and RMB252,100 (approximately HK\$303,000) respectively. Upon completion of the acquisition, the Group increased its ownership from 51% to 100% and 99% to 100% respectively.

On 14 October 2011 the Company announced the acquisition of 55% of Chongqing Lightsoft Technology Development Co. Ltd for a consideration of RMB3,751,000 (equivalent to approximately HK\$4,589,000). The transaction has not been completed as of the date of this report. For further details, please refer to the announcements of the Company dated 14 October 2011 and 13 January 2012 respectively.

Save for the above, the Group did not make any material acquisition or disposal of subsidiaries and affiliated companies during the six months ended 31 December 2011.

## Employees

The Group, including jointly controlled entities, employed 748 employees as at 31 December 2011 (30 June 2011: 770). Employees' remuneration is in line with market conditions, working experience and performance. In addition to basic salaries and provident fund contributions, the Group also offers medical benefit and training programs.

## Future Outlook and Prospects

It is the Group's strategy to enhance and maximise existing operations through continued product and service development and achievement of greater market share. Further to this, utilise the expertise and resources with each operating unit of the Group to develop new synergistic products and businesses strengthening the business of each operating unit and creating new business opportunities.

We are optimistic about the outlook for our traditional lottery operations. Consequently we increased our stake in Bozone, our traditional lottery-related operation arm, from 51% to 100%. Bozone's operations, as well as the entire China Lottery Industry, are expected to continue to experience strong organic growth with the backdrop being highly positive with even China's "Twelfth Five-Year Plan" which had mentioning the need to expand and grow the lottery industry in China. Growth will be further enhanced by the introduction of the game Happy Ten to a number of jurisdictions and its expansion downstream into point of sales outlets for Welfare Lottery Products. Meanwhile, we will continue to work on adding additional territories for our traditional lottery-related operation and solutions business.

We announced on 14 October 2011 that we were buying a 55% equity interest of Chongqing Lightsoft for the consideration of RMB3,751,000 (equivalent to approximately HK\$4,589,000) from CCDDT. The purchase price is equivalent to a historic PE ratio of 2.6, based on the unaudited 12 month net profits to 30 June 2011. Lightsoft is the Group's VOD supply arm. The acquisition of Lightsoft is an important part of the Group's strategy to rollout value added services in karaoke venues.

The Group will continue to develop attractive and exciting games for sale in karaoke venues. Aggressive rollout to karaoke venues in Chongqing is planned to commence in the latter part of this calendar year. Meanwhile, we are working hard to gain similar approvals to that of Chongqing with Welfare Lottery Issuing Centres in a number of jurisdictions in China.

Further to the above, we are not only continuing the development of our karaoke related VAS, lottery and hardware development, but also on broader lottery game and console development for deployment in other venue types.

Meanwhile, with the clarification of the law regarding copyright infringement as a criminal offence, the Group believes this will greatly facilitate the royalty collection efforts thereby enhance this segment's performance.



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

As at 31 December 2011, 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 Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the 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 Exchange, were as follows:

### (1) Long positions in the ordinary shares of the Company or any of its associated corporations

	Company/ name of associated corporation	Number of ordinary shares held			Approximate percentage of shareholding	
		Interest in controlled corporation	Beneficial owner	Family interest		Total interest
Cheung Kwai Lan	Company	1,676,457,322 (Note 1)	2,070,000 (Note 2)	-	1,678,527,322	51.30%
Chan Tung Mei	Company	-	-	1,678,527,322 (Notes 1 & 2)	1,678,527,322	51.30%
Lau Hin Kun	Company	-	1,410,000	-	1,410,000	0.04%
Cheung Kwai Lan	Best Frontier Investments Limited	-	909	1 (Note 3)	910	-
Chan Tung Mei	Best Frontier Investments Limited	-	1	909 (Note 3)	910	-

#### Notes:

- The 1,676,457,322 shares are owned by Best Frontier Investments Limited ("Best Frontier") which is owned as to 99.89% and 0.11% by Madam Cheung Kwai Lan and Mr. Chan Tung Mei who are spouse to each other. Accordingly, Madam Cheung Kwai Lan is deemed to be interested in the shares held by Best Frontier and Mr. Chan Tung Mei is deemed to be interested in all 1,676,457,322 shares by virtue of being the spouse of Madam Cheung Kwai Lan under the SFO.

2. The 2,070,000 shares are owned by Madam Cheung Kwai Lan who is the spouse of Mr. Chan Tung Mei. Accordingly, Mr. Chan Tung Mei is deemed to be interested in the shares under the SFO.
3. The 1 share and 909 shares of US\$1 each in Best Frontier is owned respectively by Mr. Chan Tung Mei and Madam Cheung Kwai Lan who are spouse to each other. Accordingly, Madam Cheung Kwai Lan and Mr. Chan Tung Mei are deemed to be interested in the shares held by each other under the SFO.

## (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 satisfies the criteria of the Share Option Scheme, to take up options to subscribe for the shares in the Company.

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

Name of Directors	Date of grant	Exercise Price HK\$	Outstanding at 1 July 2011	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 31 December 2011	Exercise period of share options
Cheung Kwai Lan	23/11/06	0.62	1,560,000	-	-	-	1,560,000	23/11/2006 – 17/10/2012
	23/11/06	0.62	1,560,000	-	-	-	1,560,000	23/5/2007 – 17/10/2012
	23/11/06	0.62	3,120,000	-	-	-	3,120,000	23/11/2007 – 17/10/2012
Chan Tung Mei	23/11/06	0.62	1,560,000	-	-	-	1,560,000	23/11/2006 – 17/10/2012
	23/11/06	0.62	1,560,000	-	-	-	1,560,000	23/5/2007 – 17/10/2012
	23/11/06	0.62	3,120,000	-	-	-	3,120,000	23/11/2007 – 17/10/2012
Chan Ting	23/11/06	0.62	1,560,000	-	-	-	1,560,000	23/11/2006 – 17/10/2012
	23/11/06	0.62	1,560,000	-	-	-	1,560,000	23/5/2007 – 17/10/2012
	23/11/06	0.62	3,120,000	-	-	-	3,120,000	23/11/2007 – 17/10/2012
Lau Hin Kun	23/11/06	0.62	350,000	-	-	-	350,000	23/11/2006 – 17/10/2012
	23/11/06	0.62	350,000	-	-	-	350,000	23/5/2007 – 17/10/2012
	23/11/06	0.62	700,000	-	-	-	700,000	23/11/2007 – 17/10/2012
Tian He Nian	23/11/06	0.62	260,000	-	-	-	260,000	23/11/2006 – 17/10/2012
	23/11/06	0.62	260,000	-	-	-	260,000	23/5/2007 – 17/10/2012
	23/11/06	0.62	530,000	-	-	-	530,000	23/11/2007 – 17/10/2012
To Yan Ming Edmond	23/11/06	0.62	260,000	-	-	-	260,000	23/11/2006 – 17/10/2012
	23/11/06	0.62	260,000	-	-	-	260,000	23/5/2007 – 17/10/2012
	23/11/06	0.62	530,000	-	-	-	530,000	23/11/2007 – 17/10/2012
Total			22,220,000	-	-	-	22,220,000	

Save as disclosed herein, as at 31 December 2011, none of the Directors or chief executives of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the 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 Exchange.

## **ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES**

Save as disclosed in the section headed "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures of the Company or any associated corporation" above, at no time during the period was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors and chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any body corporate, and none of the directors and chief executives or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the three months and six months ended 31 December 2011.

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

As at 31 December 2011, 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 executives 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 shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital, carrying rights to vote in all circumstances at general meeting of any member of the Group:

## Long positions in the Shares

Name of Shareholder	Capacity	Number of shares held		Approximate percentage of shareholding
		Long position	Short position	
Best Frontier	Beneficial owner	1,676,457,322 <i>(Note 1)</i>	-	51.24%

*Note:*

1. The 1,676,457,322 shares are owned by Best Frontier which is owned as to 99.89% and 0.11% by Madam Cheung Kwai Lan and Mr. Chan Tung Mei who are spouse to each other.

Save as disclosed above, as at 31 December 2011, the Directors or chief executives of the Company were not aware of any person (other than a Director or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, was, directly or indirectly, interest in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group.

## COMPETING INTERESTS

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

## CORPORATE GOVERNANCE

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

The provision A.4.1 of the Code on Corporate Governance Practices (the "Code on CGP") as set out in Appendix 15 of the GEM Listing Rules provides that Non-executive Directors should be appointed for specific terms, subject to re-election. The Company has deviated from this provision in that all Independent Non-executive Directors are not appointed for specific terms. They are, however, subject to retirement and re-election every three years. The reason for the deviation is that the Company does not believe

that arbitrary term limits on Directors' service are appropriate given that Directors ought to be committed to representing the long term interests of the Company's shareholders and the retirement and re-election requirements of Independent Non-executive Directors have given the Company's shareholders the right to approve continuation of Independent Non-executive Directors' offices.

Except for the deviation from the provision A.4.1 of the Code on CGP, the Company has complied with all remaining provisions of the Code on CGP during the six months ended 31 December 2011.

The Directors will review the corporate governance structure and practices from time to time and shall make necessary arrangement when the Board consider appropriate.

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

The Company has adopted the code of conduct for securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the "Code"). Having made specific enquiry of all Directors, the Company was not aware of any non-compliance with the required standard as set out in the Code throughout the six months ended 31 December 2011.

## **PRE-EMPTIVE RIGHTS**

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

## **AUDIT COMMITTEE**

The Company has established an audit committee with written terms of reference in compliance with Rules 5.28 to 5.33 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 Company's financial reporting and internal control procedures. The audit committee consisted of four independent non-executive directors, namely Mr. Zhang Xiu Fu, Mr. Tian He Nian, Mr. Yang Qing Cai and Mr. To Yan Ming Edmond. Mr. To Yan Ming Edmond is the chairman of the audit committee. The Group's unaudited results for the six months ended 31 December 2011 have been reviewed by the audit committee which was of the opinion that the preparation of such results complied with applicable accounting standards and requirements and that adequate disclosures had been made.

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

During the six months ended 31 December 2011, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

By order of the Board

**CHAN Ting**

*Director*

Hong Kong, 9 February 2012

*As at the date of this report, the executive directors are Madam Cheung Kwai Lan, Mr. Chan Ting, Ms. Chan Siu Sarah, Mr. Chan Tung Mei and Mr. Lau Hin Kun and the independent non-executive directors are Mr. Tian He Nian, Mr. Zhang Xiu Fu, Mr. Yang Qing Cai and Mr. To Yan Ming Edmond.*