



眾彩科技股份有限公司*
CHINA VANGUARD GROUP LTD.

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8156)



THIRD QUARTERLY REPORT
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.

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 (“Listing 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 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 and nine months ended 31 March 2012 (“Period 2012”), together with the comparative unaudited figures for the corresponding periods in 2011 (“Period 2011”), are as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the three months and nine months ended 31 March 2012

	Notes	Three months ended 31 March		Nine months ended 31 March	
		2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
CONTINUING OPERATIONS					
Revenue	2	22,420	24,974	79,009	79,025
Cost of sales		(5,992)	(6,376)	(26,328)	(23,932)
Gross profit		16,428	18,598	52,681	55,093
Other revenue		192	5,568	8,729	8,515
Selling and distribution costs		(2,413)	(3,246)	(9,489)	(10,602)
Administrative expenses		(18,871)	(13,650)	(61,708)	(63,502)
Finance costs		(741)	(295)	(2,004)	(2,668)
PROFIT/(LOSS) BEFORE TAXATION					
Income tax expenses	3	(45)	(790)	(1,644)	(1,791)
PROFIT/(LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS					
		(5,450)	6,185	(13,435)	(14,955)
DISCONTINUED OPERATIONS					
Profit for the period from discontinued operations	6	-	-	-	40,600
PROFIT/(LOSS) FOR THE PERIOD					
		(5,450)	6,185	(13,435)	25,645

	Three months ended		Nine months ended	
	31 March		31 March	
	2012	2011	2012	2011
Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
OTHER COMPREHENSIVE INCOME				
Exchange difference on translation of financial statements of foreign operations				
Continuing operations	175	(1,133)	5,058	746
Discontinued operations	-	-	-	-
Capital reserve arising from acquisition of non-controlling interests in subsidiaries	-	-	3,672	-
	175	(1,133)	8,730	746
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD				
	(5,275)	5,052	(4,705)	26,391
Profit/(loss) for period attributable to:				
Equity holders of the Company				
Continuing operations	(5,401)	3,900	(12,815)	(16,487)
Discontinued operations	-	-	-	40,600
	(5,401)	3,900	(12,815)	24,113
Non-controlling interests				
Continuing operations	(49)	2,285	(620)	1,532
Discontinued operations	-	-	-	-
	(49)	2,285	(620)	1,532
PROFIT/(LOSS) FOR THE PERIOD	(5,450)	6,185	(13,435)	25,645

	Notes	Three months ended		Nine months ended	
		31 March		31 March	
		2012	2011	2012	2011
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total comprehensive income for the period attributable to:					
Equity holders of the Company					
Continuing operations		(5,072)	2,767	(4,379)	(15,741)
Discontinued operations		–	–	–	40,600
		(5,072)	2,767	(4,379)	24,859
Non-controlling interest					
Continuing operations		(203)	2,285	(326)	1,532
Discontinued operations		–	–	–	–
		(203)	2,285	(326)	1,532
TOTAL COMPREHENSIVE					
INCOME FOR THE PERIOD					
		(5,275)	5,052	(4,705)	26,391
EARNINGS/(LOSS) PER SHARE					
(HK Cents)	4				
From continuing and discontinued operations:					
Basic					
		(0.17)	0.12	(0.39)	0.75
Diluted					
		N/A	0.12	N/A	0.75
From continuing operations:					
Basic					
		(0.17)	0.12	(0.39)	(0.51)
Diluted					
		N/A	0.12	N/A	N/A

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the nine months ended 31 March 2012

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited consolidated results have been prepared in accordance with accounting principles generally accepted in Hong Kong which include Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("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 ²
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets ¹
HKAS 19 (Revised 2011)	Employee benefits ³
HKAS 27 (Revised 2011)	Separate financial statements ³
HKAS 28 (Revised 2011)	Investments in associates and joint ventures ³
HKFRS 9	Financial instruments ³
HKFRS 10	Consolidated financial statements ³
HKFRS 11	Joint arrangements ³
HKFRS 12	Disclosure of interests in other entities ³
HKFRS 13	Fair value measurement ³

¹ Effective for annual periods beginning on or after 1 January 2012

² Effective for annual periods beginning on or after 1 July 2012

³ 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. 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 during Period 2012 (Period 2011: Nil).

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

4. 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 31 March		Nine months ended 31 March	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Earnings/(loss) for the purposes of basic and diluted earnings/(loss) per share	(5,401)	3,900	(12,815)	24,113

Number of shares

	Three months ended 31 March		Nine months ended 31 March	
	2012 '000	2011 '000	2012 '000	2011 '000
Weighted average number of ordinary shares for the purposes of basic earnings/(loss) per share	3,271,893	3,212,783	3,261,276	3,212,186
Effects of dilutive potential ordinary shares:				
Warrants	–	27,909	–	12,776
Weighted average number of ordinary shares for the purposes of diluted earnings per share	3,271,893	3,240,692	3,261,276	3,224,962

4. EARNING/(LOSS) PER SHARE (UNAUDITED) (Continued)

From continuing operations

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

	Three months ended		Nine months ended	
	31 March		31 March	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit/(loss) for the period attributable to equity holders of the Company	(5,401)	3,900	(12,815)	24,113
Less: Profit for the period from discontinued operations	-	-	-	(40,600)
Profit/(loss) for the purposes of basic earnings/(loss) per share from continuing operations	(5,401)	3,900	(12,815)	(16,487)

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

Diluted earnings per share for the continuing operations for the three months ended 31 March 2011 is HK0.12 cent per share based on the profit of HK\$3,900,000 and the denominator used is the same as those detailed above for diluted earnings per share.

No diluted earnings per share has been presented for continuing operations for the three months and nine months ended 31 March 2012 and the nine months ended 31 March 2011, as the outstanding share options, warrants and convertible bonds of the Company are anti-dilutive since their exercise or concession would result in a decrease in loss per share.

From discontinued operations

Since there was no profit or loss from discontinued operations for the three months and nine months ended 31 March 2012 and three months ended 31 March 2011, no basic and diluted earnings per share for these periods have been presented.

Basic earnings per share for the discontinued operations for the nine months ended 31 March 2011 was HK1.26 cents per share based on the profit of HK\$40,600,000 for the period from discontinued operations and the denominators used for the nine months ended 31 March 2011 is the same as those detailed above for basic earnings per share.

Diluted earnings per share for the discontinued operations for the nine months ended 31 March 2011 was HK1.26 cents per share based on the profit of HK\$40,600,000 for the period from discontinued operations and the denominator used for the nine months ended 31 March 2011 is the same as those detailed above for diluted earnings per share.

5. MOVEMENT OF RESERVES (UNAUDITED)

For the nine months ended 31 March 2012

	Attributable to equity holders of the Company								Total HK\$'000	
	Share premium HK\$'000	Capital redemption reserve HK\$'000	Employee		Share option reserve HK\$'000	Translation reserve HK\$'000	Special reserve HK\$'000	Capital reserve ¹ HK\$'000		Accumulated losses HK\$'000
			share-based	compensation						
			reserve	reserve						
At 1 July 2011	2,157,154	234	35,572	11,092	20,722	(1)	-	(1,120,429)	1,104,344	
Loss for the period	-	-	-	-	-	-	-	(12,815)	(12,815)	
Total other comprehensive income	-	-	-	-	4,764	-	3,672	-	8,436	
Total comprehensive income for the period	-	-	-	-	4,764	-	3,672	(12,815)	(4,379)	
Warrants exercised	7,900	-	-	-	-	-	-	-	7,900	
At 31 March 2012	2,165,054	234	35,572	11,092	25,486	(1)	3,672	(1,133,244)	1,107,865	

For the nine months ended 31 March 2011

	Attributable to equity holders of the Company								Total HK\$'000	
	Share premium HK\$'000	Capital redemption reserve HK\$'000	Employee		Share option reserve HK\$'000	Translation reserve HK\$'000	Special reserve HK\$'000	Accumulated losses HK\$'000		Discontinued operations HK\$'000
			share-based	compensation						
			reserve	reserve						
At 1 July 2010	2,155,574	234	35,572	11,092	12,661	(1)	(1,181,868)	441,190	1,474,454	
Profit/(loss) for the period	-	-	-	-	-	-	(16,487)	40,600	24,113	
Total other comprehensive income	-	-	-	-	746	-	-	-	746	
Total comprehensive income for the period	-	-	-	-	746	-	(16,487)	40,600	24,859	
Disposal of HK Life	-	-	-	-	-	-	196,778	(481,790)	(285,012)	
Warrants exercised	790	-	-	-	-	-	-	-	790	
At 31 March 2011	2,156,364	234	35,572	11,092	13,407	(1)	(1,001,577)	-	1,215,091	

5. MOVEMENT OF RESERVES (UNAUDITED) (Continued)

Note:

1. Capital reserve for the nine months ended 31 March 2012 of approximately HK\$3,672,000 arose from the acquisition of 49% and 1% interests in Cheerfull Group Holdings Limited and Shenzhen Longjiang Feng 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:

	<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

6. DISCONTINUED OPERATIONS (UNAUDITED)

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 Aptsu 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 for Period 2011.

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

	Nine months ended	
	31 March	
	2012	2011
	HK\$'000	<i>HK\$'000</i>
Profit for the period from discontinued operations		
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

7. SUBSEQUENT EVENTS

- (a) On 23 February 2012, the Company announced that a wholly-owned subsidiary Shenzhen Sheng-Gang Technology Co., Ltd. (“SG”) (“深圳生港科技有限公司”), entered into a shareholders agreement with Mr. Wang Yongchun (“Mr. Wang”) and Mr. Yuan Yong (“Mr. Yuan”), both are independent third parties to the Company, for the formation of a joint venture in PRC (“JVC”). The JVC will be owned as to 55% by SG, 20% by Mr. Wang and 25% by Mr. Yuan. The registered capital of the JVC is RMB500,000,000 (equivalent to approximately HK\$615,800,000) to be satisfied wholly in cash. Accordingly, the investment amount to be contributed by SG will be RMB275,000,000 (equivalent to approximately HK\$338,690,000) of which, 20% of the registered capital is to be paid within twenty (20) working days from the date on which the Shareholders’ Agreement becomes unconditional and the remaining 80% shall be paid within twenty four (24) months from the date of the establishment of the JVC. Mr. Wang was appointed as an Executive Director of the Company on 6 March 2012. Prior to 6 March 2012, Mr. Wang was a third party independent of the Company and its connected persons. Further information, please refer to the circular of the Company dated 20 April 2012.
- (b) On 14 October 2011, the Company announced that a wholly-owned subsidiary of the Company, Shenzhen Bozone I.T. Co., Ltd. (“Bozone”) (“深圳市博眾信息技術有限公司”), entered into the Share Transfer Agreement with China Culture Development Digital Technology Co., Ltd. (“CCDDT”) (“北京中文發數字科技有限公司”), pursuant to which, inter alia, Bozone has agreed to acquire and CCDDT has agreed to sell 55% equity interest of Chongqing Lightsoft Technology Development Co., Ltd (“Lightsoft”) (“重慶禮光博軟科技發展有限公司”) for the consideration of RMB3,751,000 (equivalent to approximately HK\$4,589,000). The parties to the Share Transfer Agreement entered into a supplemental agreement on 13 April 2012 to extend the long stop date for another three months (i.e. to a date on or before 13 July 2012). For further details of the transaction, please refer to the announcement dated 14 October 2011 of the Company.
- (c) On 15 April 2012, the Company announced that all parties have agreed to extend the long stop date for the completion of the acquisition of Glory Man Holdings Limited and the acquisition of Sky Wings Holdings Limited to 15 May 2012. For further information of the transaction, please refer to the circular of the Company dated 30 March 2011.

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 the provision of equipment and value added services (“VAS”), such as royalty collection and lottery related services, to the entertainment industry in China. The Group is also establishing its own point of sale (“POS”) stores for Welfare lottery products and working with karaoke venue owners to turn karaoke venues and rooms into POS for higher frequency Welfare Lottery products.

During the period, the Group made two announcements regarding the expansion of its operations, the first a re-entry into the burgeoning China energy sector and the second a major industrial city/property project in Guizhou Province.

For the nine months ended 31 March 2012 (“Period 2012”) the Group recorded total revenue of HK\$79,009,000 against HK\$79,025,000 in the previous corresponding period (“Period 2011”). The Group’s entertainment value added services continued to make steady progress with revenue increasing by 18.4% to HK\$33,268,000. This increase was offset by a reduction in our traditional lottery revenue which fell 12.5% to HK\$40,215,000 on restructuring which management expect will result in benefits further down the line. For Period 2012, the Group recorded a net loss attributable to shareholders of HK\$12,815,000 against a net profit attributable to shareholders of HK\$24,113,000 in Period 2011. Factoring out exceptional profits of HK\$40,600,000 from discontinued operations in Period 2011, net losses attributable to shareholders from continuing operations were reduced by 22.3% to HK\$12,815,000 for Period 2012 against net losses attributable to shareholders from continuing operations of HK\$16,487,000 in Period 2011.

Business Review

Our operations continued their steady progress during Period 2012 as illustrated by the 22.3% reduction in losses attributable to shareholders for the 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 Issuing Centres in China. These operations work with the Welfare Lottery Issuing Centres of Shenzhen, Heilongjiang and Zhejiang.

The Group is continually enhancing and upgrading its products and services. In addition to gaining ISO 27001:2005 accreditation in October last year, during the period under review World Lottery Association Security Control Standard certification was gained. This is the lottery sector’s only internationally recognized security standard.

Adding to our existing product offerings, the Group has completed development of a new lottery equipment line of self service sales system and terminals. This system enables customers to buy Welfare Lottery products (designed for high and low frequency games) themselves using a stored value card on touchscreen self service POS terminals.

During the period, we have worked diligently towards securing new markets for our traditional software and equipment product lines, expanding our POS network within and outside Tianjin, exploring markets for our new Happy Ten game and new line of self service sales system and terminals and exploring opportunities in the lottery logistics related products and services space.

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. The Group has Chongqing Welfare Lottery Issuing Centre approval to use this system to offer Welfare Lottery games in karaoke venues in Chongqing on an exclusive basis for five years. During the period, we continued improving this integrated technology platform which turns karaoke venues and rooms into Welfare Lottery POS and worked closely with a number of karaoke venues in Chongqing to refine our system and to optimize the game and venue formats. We also undertook different sales and promotional programs with the objective to establish the marketing mix which is most effective for the karaoke industry.

The establishment of karaoke venues as POS for Welfare Lottery products is being well received by a growing number of provincial Welfare Lottery Issuing Centres. After investigation and a field visit to our Chongqing operations, another Welfare Lottery Issuing Centre has decided to collaborate with the Group to explore the selling of high-frequency games through different channels including karaoke venues in their jurisdiction.

China New Energy Joint Venture

On 23 February 2012, the Group announced that it had entered into an agreement for the formation of an energy joint venture ("Energy JV") to tap into opportunities in the new energy sector. The energy JV will be 55% owned by the Group. The Group has experience and a profitable track record in the China energy industry with the Group realising an 84% return on its energy related investments (oil and gas related production, pipeline transportation and city level distribution) between 2005 and 2009.

The Energy JV will be primarily engaged in new energy exploitation and development, production and advanced processing. This includes, but is not limited to, conventional and unconventional gas resources (conventional meaning: natural gas, and; unconventional meaning: shale gas, coal bed methane and other forms of gas). A number of projects in China have been identified and are being assessed.

Given the highly positive outlook for the China energy sector, the outlook of which is not only supported by strong energy demand but also enhanced by the Chinese Government's initiatives to encourage exploitation and development of unconventional gas and other new energy resources, the Group believes that it is an opportune time to re-enter the China energy sector enabling the Group to broaden its operations into an attractive sector and tap into opportunities to bring greater returns to Shareholders.

Industrial Estate Project in Guizhou

The Group announced on 4 March 2012, that it had, entered into an agreement to establish a property joint venture ("Property JV") to assist in the development of the Guizhou Dalong Economic Development Zone ("Zone") in Guizhou Province. The Agreement was signed with the Guizhou Dalong Economic Development Zone Management Committee (the "Committee"), which is responsible for the overall management of the Zone, and Guizhou Dalong Huiyuan Development Investment Company Limited ("Huiyuan"), a wholly owned subsidiary of the Committee. Pursuant to the Agreement, the Group will have a 34% attributable stake in the Property JV. The total area which can be developed by the Property JV under the Agreement is approximately 30km², of which circa 21km² would be industrial land and circa 9km² would be commercial/residential land. The Committee undertakes that the Property JV will earn no less than a 2% return on its land development costs for any land developed by it. Meanwhile, if any land is sold at over this 2% return, then the Property JV will receive a 45% share after its land development costs, taxes and other requisite deductions are made.

Future Outlook and Prospects

We are optimistic about the outlook for our traditional lottery operations. China will continue to experience significant organic growth in lottery revenues and to enhance our position in the industry we have continually improved the quality, features and also the range of our product offerings as well as diversified downstream into POS. Our upgraded traditional software and equipment solutions, new games and range of touchscreen self service equipment have increased the range of products we can offer our clients in the jurisdictions which we already operate, enhanced our competitiveness to secure new territories from our competitors for our traditional software and equipment business and have created potential new niche opportunities within territories in which we do not already operate.

With regards our karaoke VAS, following on from our platform, game, venue format and promotional optimisation in Chongqing, we are on target to commence rollout to karaoke

venues in Chongqing in the latter part of this calendar year. As mentioned earlier, an additional Welfare Lottery Issuing Centre is now collaborating with us to explore the selling of high-frequency games through different channels including karaoke venues in their jurisdiction. We are working hard to collaborate with more Welfare Lottery Issuing Centres in a similar vein.

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. This coupled with our traditional POS equipment and new self service equipment, will give us a range of equipment to serve all needs: counter sales, self service sales and terminals for all types of channels and venues. With regards the karaoke royalty collection operations, the Group believes that the intellectual copyright industry will mature and that the long term outlook for the industry in China is highly positive.

Meanwhile, with regards the Energy JV, the Chinese Government, in the vein of promoting energy self sufficiency, bringing on-stream cleaner and higher-efficiency energy sources and further diversify and restructuring its energy mix, has been instituting policy changes to encourage exploration and development of unconventional gas and opening the door wider for foreign participation. Unconventional gas should experience rapid exploration, development and production growth due to China's richness in unconventional gas reserves. China may have circa 36.8 trillion cubic metres and 31 trillion cubic metres of technically recoverable coal bed methane and shale gas reserves respectively. The combined deposits of these two types of unconventional gas are over 20 times the country's deposits of natural gas. Consequently, the Group believes that the outlook for the new energy sector in China is very bright.

With regards the Property JV, Guizhou Province is one of the most underdeveloped provinces in China with an abundance of labour and natural resources. Due to its economic underdevelopment, Guizhou is highly supported by the Chinese Government with The State Council confirming a series of preferential policies to promote economic growth in the province. The Zone is a provincial economic development zone approved by China's National Development and Reform Commission, and therefore has preferential policies in order to facilitate the attraction of businesses into Guizhou Province. The Zone is at the juncture of Guizhou Province and Hunan Province, with national highway and rail access on its doorstep. Taking into consideration the: (i) economic potential of Guizhou Province; (ii) the Chinese Central Government support for Guizhou Province, and; (iii) the Guizhou Government support for the Zone; the Group is positive regarding the potential prospects of the Zone. Further, given the Committee's undertaking to ensure a return of 2% on costs for land developed by the Property JV, the Zone represents a low risk proposition.

DIVIDEND

The Board does not recommend the payment of any dividend for the nine months ended 31 March 2012 (Period 2011: Nil).

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

As at 31 March 2012, 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 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 ordinary shares of the Company or any of its associated corporations

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

Notes:

1. 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 and Mr. Chan respectively, who are spouse to each other. Accordingly, Madam Cheung is deemed to be interested in the shares held by Best Frontier and Mr. Chan is deemed to be interested in all 1,676,457,322 shares by virtue of being the spouse of Madam Cheung under the SFO.
2. The 2,070,000 shares are owned by Madam Cheung who is the spouse of Mr. Chan. Accordingly, Mr. Chan 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 and Madam Cheung who are spouse to each other. Accordingly, Madam Cheung and Mr. Chan 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 period of share options	Exercise price HK\$	Out-standing at 1 July 2011	Granted during the period	Exercise during the period	Lapsed during the period	Out-standing at 31 March 2012
Cheung Kwai Lan	23/11/2006	23/11/2006-17/10/2012	0.62	1,560,000	-	-	-	1,560,000
	23/11/2006	23/5/2007-17/10/2012	0.62	1,560,000	-	-	-	1,560,000
	23/11/2006	23/11/2007-17/10/2012	0.62	3,120,000	-	-	-	3,120,000
Chan Tung Mei	23/11/2006	23/11/2006-17/10/2012	0.62	1,560,000	-	-	-	1,560,000
	23/11/2006	23/5/2007-17/10/2012	0.62	1,560,000	-	-	-	1,560,000
	23/11/2006	23/11/2007-17/10/2012	0.62	3,120,000	-	-	-	3,120,000
Chan Ting	23/11/2006	23/11/2006-17/10/2012	0.62	1,560,000	-	-	-	1,560,000
	23/11/2006	23/5/2007-17/10/2012	0.62	1,560,000	-	-	-	1,560,000
	23/11/2006	23/11/2007-17/10/2012	0.62	3,120,000	-	-	-	3,120,000
Lau Hin Kun	23/11/2006	23/11/2006-17/10/2012	0.62	350,000	-	-	-	350,000
	23/11/2006	23/5/2007-17/10/2012	0.62	350,000	-	-	-	350,000
	23/11/2006	23/11/2007-17/10/2012	0.62	700,000	-	-	-	700,000
Tian He Nian	23/11/2006	23/11/2006-17/10/2012	0.62	260,000	-	-	-	260,000
	23/11/2006	23/5/2007-17/10/2012	0.62	260,000	-	-	-	260,000
	23/11/2006	23/11/2007-17/10/2012	0.62	530,000	-	-	-	530,000
To Yan Ming Edmond	23/11/2006	23/11/2006-17/10/2012	0.62	260,000	-	-	-	260,000
	23/11/2006	23/5/2007-17/10/2012	0.62	260,000	-	-	-	260,000
	23/11/2006	23/11/2007-17/10/2012	0.62	530,000	-	-	-	530,000
Total				22,220,000	-	-	-	22,220,000

Save as disclosed herein, as at 31 March 2012, 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 nine months ended 31 March 2012.

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

As at 31 March 2012, 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 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 5% 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 (Note 1)	-	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 and Mr. Chan who are spouse to each other.

Save as disclosed above, as at 31 March 2012, 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 5% 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.

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 nine months ended 31 March 2012.

CORPORATE GOVERNANCE CODE OF THE GEM LISTING RULES

Changes to Information in respect of Directors

In accordance with Rule 17.50A(1), the changes to information required to be disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of Rule 17.50(2) set out below:

Mr. To Yan Ming Edmond is appointed as an Independent Non-Executive Director, member of remuneration committee, audit committee and nomination committee of Bao Yuan Holdings Limited with shares listed on the Main Board of the Stock Exchange on 24 April 2012.

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 nine months ended 31 March 2012 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 nine months ended 31 March 2012, 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, 11 May 2012

As at the date of this report, the board of directors of the Company comprises six executive directors, being Madam Cheung Kwai Lan, Mr. Chan Ting, Mr. Wang Yong Chun, Ms. Chan Siu Sarah, Mr. Chan Tung Mei and Mr. Lau Hin Kun; and four independent non-executive directors, being Mr. Zhang Xiu Fu, Mr. Tian He Nian, Mr. Yang Qing Cai and Mr. To Yan Ming Edmond.