



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

2012/13

*For identification purposes only

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”) presents the unaudited consolidated results of the Company and its subsidiaries (together the “Group”) for the three months and six months ended 31 December 2012 (“Period 2012”), together with the comparative unaudited figures for the corresponding periods in 2011 (“Period 2011”), are as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the three months and six months ended 31 December 2012

	Notes	Three months ended 31 December		Six months ended 31 December	
		2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Revenue	2	23,970	28,239	44,849	56,589
Costs of sales		(8,542)	(10,510)	(16,614)	(20,336)
Gross profit		15,428	17,729	28,235	36,253
Other revenue		171	1,673	810	8,537
Selling and distribution costs		(3,014)	(3,231)	(5,603)	(7,076)
Administrative expenses		(20,153)	(24,141)	(40,660)	(42,837)
Finance costs		(2,984)	(639)	(6,565)	(1,263)
LOSS BEFORE TAXATION		(10,552)	(8,609)	(23,783)	(6,386)
Income tax expenses	5	(490)	(1,098)	(564)	(1,599)
LOSS FOR THE PERIOD		(11,042)	(9,707)	(24,347)	(7,985)

	Three months ended		Six months ended	
	31 December 2012	2011	31 December 2012	2011
Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
OTHER COMPREHENSIVE INCOME				
Exchange difference on translation of financial statements of foreign operations	1,503	53	3,516	4,883
Changes of interest in subsidiaries	—	—	—	3,672
	1,503	53	3,516	8,555
TOTAL COMPREHENSIVE (EXPENSES)/INCOME FOR THE PERIOD				
	(9,539)	(9,654)	(20,831)	570
Loss for the period attributable to:				
Equity holders of the Company	(10,448)	(9,256)	(23,107)	(7,414)
Non-controlling interests	(594)	(451)	(1,240)	(571)
LOSS FOR THE PERIOD				
	(11,042)	(9,707)	(24,347)	(7,985)
TOTAL COMPREHENSIVE (EXPENSES)/INCOME FOR THE PERIOD ATTRIBUTABLE TO:				
Equity holders of the Company	(9,042)	(7,817)	(19,730)	693
Non-controlling interests	(497)	(1,837)	(1,101)	(123)
TOTAL COMPREHENSIVE (EXPENSES)/INCOME FOR THE PERIOD				
	(9,539)	(9,654)	(20,831)	570
LOSS PER SHARE (HK CENTS)				
Basic	(0.31)	(0.28)	(0.69)	(0.23)
Diluted	N/A	N/A	N/A	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

		(Unaudited) 31 December 2012 HK\$'000	(Audited) 30 June 2012 HK\$'000
	Notes		
Non-current assets			
Property, plant and equipment	8	16,080	16,154
Goodwill		94,608	94,475
Prepaid lease payment		4,415	—
		115,103	110,629
Current assets			
Inventories		4,614	3,936
Trade and other receivables and prepayments	9	60,774	43,543
Pledged bank deposits		5,245	5,223
Bank balances and cash		46,872	81,186
		117,505	133,888
Current liabilities			
Trade payables, accrued liabilities and other payables	10	41,543	61,260
Tax liabilities		2,630	2,271
Bank and other borrowings	11	34,508	32,419
Convertible bonds	12	—	7,365
		78,681	103,315
Net current assets		38,824	30,573
Total assets less current liabilities		153,927	141,202
Non-current liabilities			
Bank and other borrowings	11	72,387	74,331
		72,387	74,331
Net assets		81,540	66,871
Capital and reserves			
Share Capital	13	37,719	32,719
Reserves		28,717	17,947
Equity attributable to equity holders of the Company		66,436	50,666
Non-controlling interests		15,104	16,205
Total equity		81,540	66,871

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 31 December 2012

	Six months ended	
	31 December	
	2012	2011
	HK\$'000	HK\$'000
Net cash outflow from operating activities	(41,179)	(7,903)
Net cash outflow from investing activities	(6,834)	(29,855)
Net cash inflow from financing activities	10,183	35,408
Net decreases in cash and cash equivalents	(37,830)	(2,350)
Cash and cash equivalents at 1 July	81,186	68,155
Effect of foreign exchange rates changes	3,516	4,853
Cash and cash equivalents at 31 December	46,872	70,658

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 31 December 2012

	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/(Accumulated loss) HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 July 2012	32,719	2,165,054	234	35,572	11,092	23,735	(1)	10,195	(2,227,934)	16,205	66,871
Loss for the period	—	—	—	—	—	—	—	—	(23,107)	(1,240)	(24,347)
Exchange differences on translation of financial statements of overseas operations	—	—	—	—	—	3,377	—	—	—	139	3,516
Total comprehensive income/(expenses) for the period	—	—	—	—	—	3,377	—	—	(23,107)	(1,101)	(20,831)
Transfer of share option reserve upon the lapse of share options	—	—	—	(35,572)	(11,092)	—	—	—	46,664	—	—
Shares issued on loan capitalization	5,000	30,500	—	—	—	—	—	—	—	—	35,500
At 31 December 2012	37,719	2,195,554	234	—	—	27,112	(1)	10,195	(2,204,377)	15,104	81,540

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	Accumulated loss 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)
Exchange differences on translation of financial statements of overseas operations	—	—	—	—	—	4,435	—	—	—	448	4,883
Change of interests in subsidiaries and a subsidiary of a jointly-controlled entity	—	—	—	—	—	—	—	3,672	—	—	3,672
Total comprehensive income/(expenses) for the period	—	—	—	—	—	4,435	—	3,672	(7,414)	(123)	570
Transfer of deferred income	—	—	—	—	—	—	—	—	—	(6,587)	(6,587)
Acquisition of non-controlling interests	—	—	—	—	—	(31)	—	—	—	(31,144)	(31,175)
Shares issued on exercise of warrants	500	7,900	—	—	—	—	—	—	—	—	8,400
At 31 December 2011	32,719	2,165,054	234	35,572	11,092	25,126	(1)	3,672	(1,127,843)	16,736	1,162,361

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended 31 December 2012

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 costs 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 2012. The financial statements are unaudited but have been reviewed by the Audit Committee of the Company.

In the current period, the Group has applied the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA.

HKAS 1 (Amendments)	Presentation of items of other comprehensive income
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets

The application of the new and revised HKFRSs in the current period has had no material effect on the amounts reported or disclosures set out in these consolidated financial statements.

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

HKAS 19 (as revised in 2011)	Employee benefits ¹
HKAS 27 (as revised in 2011)	Separate financial statements ¹
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures ¹
HKAS 32 (Amendments)	Offsetting financial assets and financial liabilities ²
HKFRSs (Amendments)	Annual improvements to HKFRSs 2009-2011 cycle ¹
HKFRS 1 (Amendments)	Government loan ¹
HKFRS 7 (Amendments)	Disclosures — Offsetting financial assets and financial liabilities ¹
HKFRS 9	Financial instruments ³
HKFRS 9 and HKFRS 7 (Amendments)	Mandatory effective date of HKFRS 9 and transition disclosures ³
HKFRS 10	Consolidated financial statements ¹
HKFRS 11	Joint arrangements ¹
HKFRS 12	Disclosure of interests in other entities ¹
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidation financial statements, joint arrangements and disclosure of interests in other entities: transition guidance ¹
HKFRS 13	Fair value measurement ¹
HK(IFRIC) — INT 20	Stripping costs in the production phase of a surface mine ¹

¹ Effective for annual periods beginning on or after 1 January 2013

² Effective for annual periods beginning on or after 1 January 2014

³ Effective for annual periods beginning on or after 1 January 2015

2. REVENUE

The principal activities of the Group are (i) supply of software, equipment and services to the lottery industry and operates the lottery sales distribution network in China; (ii) land and property development in China; and (iii) supply of equipment and services to the entertainment industry in China.

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 2012:

Six months ended 31 December 2012 (Unaudited)

	Lottery- related Services HK\$'000	Entertainment Equipment and Services Operations HK\$'000	Others HK\$'000	Consolidated HK\$'000
Segment revenue:				
Sales to external customers	19,031	25,731	87	44,849
Segment results	654	(1,155)	(1,223)	(1,724)
Unallocated income				23
Unallocated expenses				(15,517)
Finance costs				(6,565)
Loss on investment				—
Loss before taxation				(23,783)
Income tax expenses				(564)
Loss for the period				(24,347)
Amount included in the measure of segment profit or loss or segment assets:				
Additions to property, plant and equipment	(756)	(222)	(1,382)	(2,360)
Depreciation and amortization	(1,364)	(1,013)	(215)	(2,592)

3. SEGMENT INFORMATION (Continued)

(a) Segment revenue and results (Continued)

Six months ended 31 December 2011 (Unaudited)

	Lottery- related Services <i>HK\$'000</i>	Entertainment Equipment and Services Operations <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment revenue:				
Sales to external customers	27,233	25,420	3,936	56,589
Segment results	6,109	(81)	(298)	5,730
Unallocated income				7,036
Unallocated expenses				(17,889)
Finance costs				(1,263)
Loss before taxation				(6,386)
Income tax expenses				(1,599)
Loss for the period				(7,985)
Amount included in the measure of segment profit or loss or segment assets:				
Additions to property, plant and equipment	(184)	—	(790)	(974)
Depreciation and amortization	(5,784)	(1,724)	(557)	(8,065)

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 2012 (Unaudited)

	Lottery- related Services HK\$'000	Entertainment Equipment and Services Operations HK\$'000	Others HK\$'000	Consolidated HK\$'000
Assets				
Segment assets	130,452	66,011	21,335	217,798
Unallocated assets				18,820
Total Assets				236,618
Liabilities				
Segment liabilities	9,242	31,505	5,615	46,362
Unallocated liabilities				1,821
Bank and other borrowings				106,895
Convertible Bonds				—
Total Liabilities				155,078

As at 30 June 2012 (Audited)

	Lottery- related Services HK\$'000	Entertainment Equipment and Services Operations HK\$'000	Others HK\$'000	Consolidated HK\$'000
Assets				
Segment assets	137,239	76,859	4,517	218,615
Unallocated assets				25,902
Total Assets				244,517
Liabilities				
Segment liabilities	8,016	43,808	971	52,795
Unallocated liabilities				10,736
Bank and other borrowings				106,750
Convertible Bonds				7,365
Total Liabilities				177,646

4. LOSS FROM OPERATIONS

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

	(Unaudited)	
	Six months ended	
	31 December	
	2012	2011
	HK\$'000	HK\$'000
Cost of sales	16,614	20,336
Depreciation of property, plant and equipment	2,592	7,242
Interest on borrowings	6,357	936
Interest on convertible bonds	208	327
Interest income	(165)	(268)

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 2012 (three months and six months ended 31 December 2011: HK\$Nil).

Taxation arising in 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 2012 (three months and six months ended 31 December 2011: HK\$Nil).

7. LOSS PER SHARE

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

Loss

	(Unaudited)		(Unaudited)	
	Three months ended		Six months ended	
	31 December		31 December	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss for the period for the purpose of basic and diluted loss per share	(10,448)	(9,256)	(23,107)	(7,414)

Number of shares

	Three months ended		Six months ended	
	31 December		31 December	
	2012	2011	2012	2011
	'000	'000	'000	'000
Weighted average number of ordinary shares for the purpose of basic loss per share	3,386,024	3,268,524	3,328,959	3,265,209
Effects of dilutive potential ordinary shares: warrants	—	425	—	5,605
Weighted average number of ordinary shares for the purposes of diluted loss per share	3,386,024	3,268,949	3,328,959	3,270,814

No diluted loss per share has been presented for the three months and six months ended 2012 and 2011 respectively 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.

On 11 December 2012, the Company has issued 500,000,000 ordinary shares by capitalizing a loan in the amount of HK\$35,500,000 at a subscription price of HK\$0.071 per share.

8. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31 December 2012, the Group acquired items of plant and machinery with a cost of approximately HK\$2,360,000 (six months ended 31 December 2011: approximately HK\$974,000). The Group did not have any material disposal of plant and machinery for the six months ended 31 December 2012 (six months ended 31 December 2011: no material disposal).

9. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	(Unaudited)	(Audited)
	31 December	30 June
	2012	2012
	HK\$'000	HK\$'000
Trade receivables	20,749	16,813
Other receivables and prepayments	42,459	29,164
	63,208	45,977
Less: Allowances for doubtful receivable	(2,434)	(2,434)
	60,774	43,543

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

An ageing analysis of the Group's trade receivables at the end of reporting period is as follows:

	(Unaudited)	(Audited)
	31 December	30 June
	2012	2012
	HK\$'000	HK\$'000
0 to 30 days	4,198	5,756
31 to 60 days	2,450	1,483
61 to 365 days	11,215	9,421
Over 1 year	2,886	153
	20,749	16,813

10. TRADE PAYABLES, ACCRUED LIABILITIES AND OTHER PAYABLES

	(Unaudited)	(Audited)
	31 December	30 June
	2012	2012
	HK\$'000	HK\$'000
Trade payables	18,059	32,259
Accrued liabilities and other payables	23,484	29,001
	41,543	61,260

An ageing analysis of the Group's trade payables at the end of reporting period is as follows:

	(Unaudited)	(Audited)
	31 December	30 June
	2012	2012
	HK\$'000	HK\$'000
0 to 30 days	2,822	716
31 to 120 days	7,555	21,212
121 to 180 days	4,096	310
181 to 365 days	385	8,965
Over 1 year	3,201	1,056
	18,059	32,259

11. BANK AND OTHER BORROWINGS

	(Unaudited) 31 December 2012 HK\$'000	(Audited) 30 June 2012 HK\$'000
Other loan, secured (Note a)	22,068	20,000
Other loans, unsecured (Note b)	—	74,331
Bank overdraft, secured (Note c)	12,440	12,419
Loan from substantial shareholder (Note d)	72,387	—
	106,895	106,750

Bank and other borrowings are repayable as follows:

	(Unaudited) 31 December 2012 HK\$'000	(Audited) 30 June 2012 HK\$'000
On demand or within one year	34,508	32,419
Over one year	72,387	74,331
	106,895	106,750
Less: Amounts shown under current liabilities	(34,508)	(32,419)
Long term portion	72,387	74,331

Notes:

- (a) Other loan of HK\$22,068,000 (30 June 2012: HK\$20,000,000) is interest bearing at 20% per annum, secured by pledge of shares of a subsidiary and repayable in next twelve months.
- (b) Other loans of approximately HK\$74,331,000 as at 30 June 2012 is interest bearing at 12% per annum, and unsecured.
- (c) Bank overdraft of approximately HK\$12,440,000 (30 June 2012: approximately HK\$12,419,000) is interest charged at 5.25%-8.25% (30 June 2012: 5.25%-7.25%) per annum, secured by pledge bank deposit and corporate guarantee by the Company.
- (d) Loan from substantial shareholder of approximately HK\$72,387,000 (30 June 2012: Nil) is interest charged at 2% per annum, unsecured and repayable on 30 November 2014.

12. CONVERTIBLE BONDS

The Company adhered the convertible bonds ("GPIL Bonds") issued by its wholly-owned subsidiary, Grand Promise International Limited ("GPIL") 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\$0.80 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. At the maturity date, all the outstanding GPIL Bonds are redeemed.

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 recognized 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:

	(Unaudited)	
	Conversion option derivative component	Liability component
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 July 2012	—	7,365
Imputed finance costs	—	208
Exchange difference	—	2,585
Redemption of the convertible bonds	—	(10,158)
At 31 December 2012	—	—

13. SHARE CAPITAL

	Number of shares '000	HK\$'000
<i>Authorized:</i>		
At 1 July 2012 and 31 December 2012 Shares of HK\$0.01 each	20,000,000	200,000
<i>Issued and fully paid:</i>		
At 1 July 2012	3,271,894	32,719
Shares issued on loan capitalization on 11 December 2012	500,000	5,000
At 31 December 2012	3,771,894	37,719

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 executive's interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation". The share option scheme and all the outstanding share options under the scheme have expired on 17 October 2012.

14. PLEDGE OF ASSETS

As at 31 December 2012, the Group has pledged its bank deposits of approximately HK\$5,246,000 (30 June 2012: approximately HK\$5,223,000) as securities for the general banking facilities granted to the Group.

As at 31 December 2012, the Group has pledged all the issued and outstanding shares of China Success Enterprises Limited and its subsidiaries (except Ace Bingo Group Limited and its subsidiaries) to Tarascon Asia Absolute Fund (Cayman) Limited for a loan of HK\$20,000,000.

15. OPERATING LEASES COMMITMENTS

The Group as lessee

At 31 December 2012, the Group was committed to make the following future minimum lease payments under non-cancellable operating leases which fall due as follows:

	(Unaudited) 31 December 2012 HK\$'000	(Audited) 30 June 2012 HK\$'000
Within one year	4,101	4,477
In the second to fifth year inclusive	4,667	1,806
	8,768	6,283

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

The Group as lessor

At 31 December 2012, the Group had commitments for future minimum lease arrangement in respect of rented premises under non-cancellable operating leases which fall due as follows:

	(Unaudited) 31 December 2012 HK\$'000	(Audited) 30 June 2012 HK\$'000
Within one year	62	61
In the second to fifth year inclusive	124	183
	186	244

16. CAPITAL COMMITMENTS

	(Unaudited) 31 December 2012 HK\$'000	(Audited) 30 June 2012 HK\$'000
Capital expenditure in respect of acquisition additional equity interest in subsidiaries	45,438	44,591
	45,438	44,591

17. RELATED PARTY TRANSACTIONS

Compensation of directors and key management personnel

The remuneration of directors and other members of key management during the three and six months ended 31 December 2012 was as follows:

	(Unaudited)		(Unaudited)	
	Three months ended		Six months ended	
	31 December		31 December	
	2012	2011	2012	2011
	HK\$'000	<i>HK\$'000</i>	HK\$'000	<i>HK\$'000</i>
Short-term benefits	2,520	3,120	5,180	6,124
Post-employment benefits	32	30	65	60
	2,552	3,150	5,245	6,184

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

Balance with related party

Balance with related party is disclosed in note 11 to the consolidated financial statements.

Interest on loan from substantial shareholder

Interest accrued for a loan from a substantial shareholder during the three months and six months ended 31 December 2012 was HK\$118,000 and HK\$118,000 respectively (three months and six months ended 31 December 2011: Nil).

18. MAJOR NON-CASH TRANSACTION

On 30 November 2012, Mr. Ng Kim Ming ("Mr. Ng", an independent third party to the Company), Best Frontier Investments Limited ("Best Frontier", a substantial shareholder of the Company) and the Company entered into an agreement whereas Best Frontier agreed to take up and Mr. Ng agreed to assign a loan of HK\$62,835,000 to Best Frontier.

19. SEASONALITY

The Group considers that the revenue from (i) supply of software, equipment and services to the lottery industry and operates the lottery sales distribution network in China; (ii) land and property development in China; and (iii) supply of equipment and services to the entertainment industry in China are not subject to material seasonal fluctuations.

20. EVENTS AFTER THE REPORTING PERIOD

Pursuant to an ordinary resolution passed on 31 January 2013 at the Company's extraordinary general meeting, five issued and unissued ordinary shares of the Company each with a par value of HK\$0.01 were consolidated into one consolidated share with a par value of HK\$0.05 each. The total nominal value of the authorized and issued share capital of the Company remained unchanged. The number of authorized to issue and the number of issued ordinary shares of the Company were changed accordingly.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The Group is engaged in: (i) supply of software, equipment and services to the lottery industry and operates the lottery sales distribution network in China; (ii) land and property development in China; and (iii) supply of equipment and services to the entertainment industry in China.

For the six months ended 31 December 2012 (“Period 2012”), the Group recorded total revenue of HK\$44.8 million against HK\$56.6 million in the previous corresponding period (“Period 2011”), down 20.8% year-on-year. The decline in revenue was predominantly due to reduced revenue from the lottery business and a poorer than desired performance from the Entertainment equipment and services operations. The goodwill for the latter was totally written off in the last financial year reflecting our lowered expectations from these operations going forward. Gross profit declined 22.3% to HK\$28.2 million as compared with HK\$36.3 million in Period 2011. The gross profit ratio of 63.0% declined 1 ppt as compared with 64.1% in Period 2011. For Period 2012, the Group recorded a net loss attributable to the equity holders of HK\$23.1 million against a net loss attributable to the equity holder of HK\$7.4 million in Period 2011. Factoring out one-off non-recurrent income, recurrent losses attributable to the equity holders were HK\$23.1 million in Period 2012 against HK\$14 million in Period 2011. Selling and distribution costs and administrative expenses in Period 2012 amounted to HK\$46.3 million, decreased 7.2% as compared to HK\$49.9 million in Period 2011.

Business Review

During the reporting period, our lottery-related and property operations managed to ride on the new business momentum brought forward from the end of last financial year 2011/2012 (“FY12”) and have achieved some important strategic milestones.

Regarding the lottery division, we are pleased to highlight our breakthrough in Jilin during second quarter of our financial year 2012/2013 (“FY13”) in which we have successfully expanded into a new geographic coverage in China. Under the new business contract with Jilin Welfare Lottery Issuing Centre, we will provide our touch-screen based high frequency lottery game solution for “Happy 3”, which includes the required software, hardware and its relevant maintenance services. Besides we will also be operating the specialty stores for selling “Happy 3”. We have, since then, been focusing on its technical development quality assurance process. We expect to deliver in the third quarter of FY13. On top of Jilin’s progress, we have also expanded our lottery sales distribution channels in Tianjin.

On the property side, the past 6 months has been an important period for our property division. At the operational level, we have gone from the basics of office and operational implementation, and up to some of the actual class 1 development works on blocks of land for commercial use and industrial use respectively. The first piece of commercial land we targeted to develop is located in an area immediately surround the Yi Xin High-speed Railway Station (一心高鐵路站) in the Guizhou Dalong Economic Development Zone (the "Zone"). As for industrial land, Guizhou Dalong China Vanguard Development Company Limited ("GDCVG") initiated Hong Kong-Taiwan Industrial Park (港台產業園) in the Zone, assisting the management committee of the Zone (the "Committee") in forming the master layout plan in the said area while also promoting it to potential investors.

Lottery-related Operations

The Group's lottery-related operation is engaged in the supply of lottery-related software, equipment and services to the China Welfare Lottery Authorities. We also operates the lottery sales distribution network in China. Our operations cover Zhejiang, Heilongjiang, Shenzhen, Chongqing and as well as the two geographic areas we recently penetrated into, namely Jilin and Tianjin.

Recent years the lottery industry in China has turned much of its focus in how to broaden the lottery customers profile to include more customers from middle to high income class. We are working with lottery centres to cater such needs, these include via exploring of new distribution channels or bringing in new games.

During Period 2012, we have accomplished several milestones in Tianjin in attempt to capture some opportunities brought out by the believed market trend. Firstly, we have launched our touch-screen based high frequency lottery game solution for "Happy 10" in August 2012. High frequency lottery game is a lottery game type which has a short duration between each draw (i.e. 8 to 12 minutes as compare to the 2 to 3 days interval between each draw of traditional lottery games). Such high frequency lottery games are believed to be able to increase the sense of involvement for the lottery customers. We think the high frequency lottery games in China will become one of the major growth driver in lottery sales in future.

In addition, our Tianjin operation has expanded its lottery sales distribution network from street level outlets to strategic locations, for example our airport outlet in Tianjin has been launched in November 2012. In December 2012, we have also started to expand our lottery sales distribution network through franchising.

During second quarter of our FY13, we had a breakthrough in Jilin by signing with Jilin Welfare Lottery Issuing Centre on the provision of our touch-screen based high frequency lottery game solution for "Happy 3". The scope of the contract includes the provision of the required software, hardware together with its relevant maintenance services. Besides, we will also be operating the specialty stores for selling "Happy 3".

During Period 2012, we have also developed a high frequency lottery game solution for "Happy 12" for Zhejiang Welfare Lottery Issuing Centre. We have contracted to deliver 2,000 of our "Happy 12" sales terminals. All of the said terminals have already been deployed and in operation since December 2012.

During the period, we have been working on our first annual audit for the World Lottery Association Security Control Standards ("WLA SCS") certification and have successfully passed this annual audit in January 2013. We have been certified in complied with this standards since January 2012.

During Period 2012, we have received a subsidy from Administration Centre of Innovation Fund for Technology-Based SMEs, Ministry of Science and Technology as a financial support to remunerate us on our proprietary Lottery Operation Support System (彩票營運支撐系統). This demonstrated our product research capability is being recognized by more and more third party authorities.

Land and Property Development Operations

Under the Group's property division, we have formed our non-wholly owned subsidiary, GDCVG which is a joint venture in China with the wholly owned subsidiary of the Committee. GDCVG's main role is to assist the Committee in carrying out class 1 land development work and to promote the sales of land in the Zone. The scope of class 1 land development work involves land requisition and infrastructure such as land leveling, landscaping and supply of utilities in order to transform raw land into cultivated land up to the standard for land auction. We have contracted to develop up to 30 km² of industrial and commercial land in the Zone in Guizhou province in return for a share of profits on any land's sale. A profit guarantee to GDCVG has been given by the Committee.

The past 6 months has been an important period for our property division. At the operational level, we have gone from the basics of office and operational implementation, and up to some of the actual class 1 development works on blocks of land for commercial use and industrial use respectively.

The first commercial land we targeted to develop is located in an area immediately surround the Yi Xin High-speed Railway Station (一心高鐵站) in the Zone which is within Tongren district. Yi Xin High-speed Railway Station is the only high-speed railway station that is to service the whole Tongren district. Tongren district has a population of circa 4,270,000 and an administration area of approximately 18,003 km². Since the station is expected to be in use by early 2014, we are preparing the commercial land to meet the anticipated market demand in the coming months. Master layout plans have been completed pending on provincial approval while relevant land requisitions have commenced.

For industrial land, GDCVG initiated Hong Kong-Taiwan Industrial Park(港台產業園) in the Zone and has devoted resources on investment promotion. We are in discussion with various manufacturing companies on their possible establishment of manufacturing plants in the Zone. We have also assisting the Committee in forming the design of master layout plans for Hong Kong-Taiwan Industrial Park.

Entertainment Equipment and Services Operations

Our entertainment equipment unit focuses predominantly on supply of song selection/video-on-demand equipment to karaoke venues and our entertainment services unit on royalty collection on behalf of copyright owners from karaoke venues. These operations performed below our expectation and has been reflected in the total write-off in last financial year.

Future Outlook and Prospects

In light of the new strategic developments achieved by our lottery division during the reporting period, we are confident that these new opportunities will bring in meaningful enhancement to our revenue. The increased in geographical footprints, the growth in our lottery sales distribution network and the expansion of our product range have definitely much strengthened our market position. Our previous devotion in technology improvements have also started to take its effect. New business contracts have been acquired and recognitions were received from third party authorities. We are highly optimistic on our upcoming growth trend in our lottery operation.

On the other hand, our property division just went through most of its establishment phase with the operational team now in place and the business directions being more well defined. We will continue to work diligently and closely with the Committee in bringing in value to the economic development of the Zone. Since land blocks from prime locations have already been identified, we are confident that this division will be able to realize results and create a new revenue stream for the Group in the foreseeable future.

Financial Resources and Liquidity

As at 31 December 2012, the Group had bank balances and cash of approximately HK\$46,872,000 (30 June 2012: approximately HK\$81,186,000). Net asset value per share was approximately HK\$0.02 (30 June 2012: approximately HK\$0.02), and current assets at approximately HK\$117,505,000 (30 June 2012: approximately HK\$133,888,000). The gearing ratio was 88.8% as at 31 December 2012 (30 June 2012: approximately 111%). Gearing ratio is calculated as non-current liabilities divided by total equity.

Foreign Exchange Exposure

No significant exchange risk is expected as the Group's cash, borrowings, income and expenses are settled in Hong Kong dollars ("HK\$"), Renminbi ("RMB") or United States dollar ("US\$"). The Group's major investment and financing strategies are to invest in domestic projects in the PRC by RMB, 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 year. Nevertheless, the Group will from time to time review and adjust the Group's investment and financing strategies based on the RMB, US dollars and Hong Kong dollars exchange rate movement.

Capital Structure

On 11 December 2012, the Company has issued 500,000,000 ordinary shares of the Company by capitalizing a loan in the amount of HK\$35,500,000 at a subscription price of HK\$0.071 per share. Save as disclosed, there is no material change in the capital structure of the Group.

Charges on the Group Assets

As at 31 December 2012, the Group has pledged:

- (i) the bank deposits of approximately HK\$5,245,000 (30 June 2012: approximately HK\$5,223,000) as securities for the general banking facilities granted to the Group.
- (ii) all the issued and outstanding shares of China Success Enterprises Limited and its subsidiaries (except Ace Bingo Group Limited and its subsidiaries) to Tarascon Asia Absolute Fund (Cayman) Limited for a loan facility of HK\$20,000,000.

Contingent Liabilities

The Group did not have any contingent liabilities as at 31 December 2012 (30 June 2012: Nil).

Commitments

The Group had capital commitments of approximately HK\$45,438,000 and operating leases commitments as lessee of approximately HK\$8,768,000 from operating as at 31 December 2012 (30 June 2012: approximately HK\$44,591,000 and operating approximately HK\$6,283,000 respectively).

Significant Investments, Acquisitions and Disposal

During the reporting period, the Group did not make any material acquisition or disposal of subsidiaries and affiliated companies.

Employees

As at 31 December 2012, the Group, including jointly controlled entities, has approximately 395 employees (30 June 2012: 444 employees). The remuneration package of the employees is determined with reference to their performance, experience and their positions, duties and responsibilities in the Group.

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

As at 31 December 2012, the interests and short positions of the Directors and chief executive 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 of Hong Kong Limited (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 Rules ("GEM Listing Rules") Governing the Listing of Securities on the Growth Enterprise Market of the Exchange, 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

Name of Directors	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 ("Madam Cheung")	Company	1,676,457,322 (Note 1)	2,070,000 (Note 2)	—	1,678,527,322	44.50%
Chan Tung Mei ("Mr. Chan")	Company	—	—	1,678,527,322 (Note 1 & 2)	1,678,527,322	44.50%
Madam Cheung	Best Frontier Investments Limited ("Best Frontier")	—	909	1 (Note 3)	910	—
Mr. Chan	Best Frontier	—	1	909 (Note 3)	910	—

Notes:

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 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 remains valid for a period of 10 years commencing from 18 October 2002 and ending at 17 October 2012. All the outstanding share options under the Share Option Scheme have also expired on 17 October 2012.

Save as disclosed herein, as at 31 December 2012, none of the Directors or chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the 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 executive's 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 executive 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 executive 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 six months ended 31 December 2012.

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

As at 31 December 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 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 (Note 1)	—	44.45%
Capital Day Investments Limited	Beneficial Owner	500,000,000 (Note 2)	—	13.26%

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.
2. The 500,000,000 shares are owned by Capital Day Investments Limited which is wholly-owned by Mr. Ng Kim Ming.

Save as disclosed above, as at 31 December 2012, the Directors or chief executive of the Company were not aware of any person (other than a Director or chief executive of the Company) who had an interest or short position in the 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, 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 other member of the Group.

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

During the six months ended 31 December 2012, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

COMPETITION AND CONFLICT OF INTERESTS

As at 31 December 2012, none of the Directors, the substantial shareholders or the controlling shareholder of the Company or any of their respective associates have engaged in any business that competes or may compete with the business of the Group, or have any other conflict of interests with the Group.

PRE-EMPTIVE RIGHTS

There is 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.

CORPORATE GOVERNANCE

Corporate Governance Practices

During the six months ended 31 December 2012, the Company has complied with the Code (the "CG Code") of Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules save and except that the Non-Executive Director and Independent Non-Executive Directors are not appointed by a specific terms under code provision A.4.1 of the CG Code but are subject to retirement by rotation in annual general meeting of the Company at least once every three years in accordance with the articles of association of the Company. 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 code provision A.4.1 of the CG Code, the Company has complied with all remaining provisions of the CG Code during the six months ended 31 December 2012.

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 of Conduct"). Having made enquiry of all Directors, the Company was not aware of any non-compliance with the required standard set out in the Code of Conduct.

Audit Committee

The Company has established an audit committee with written terms of reference in compliance with the GEM Listing Rules and consisted of three Independent Non-Executive Directors, namely Mr. Zhang Xiu Fu, Mr. Yang Qing Cai and Mr. To Yan Ming Edmond. Mr. To Yan Ming Edmond is the chairman of the audit committee.

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 Group's unaudited results for the six months ended 31 December 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.

By order of the Board
CHINA VANGUARD GROUP LIMITED
眾彩科技股份有限公司*
CHAN Ting
Director

Hong Kong, 7 February 2013

As at the date of this report, the board of directors of the Company comprises four Executive Directors, being Madam Cheung Kwai Lan, Mr. Chan Ting, Mr. Wang Yong Chun, Ms. Chan Siu Sarah, one Non-Executive Director being Mr. Chan Tung Mei and three Independent Non-Executive Directors, being Mr. Zhang Xiu Fu, Mr. Yang Qing Cai and Mr. To Yan Ming Edmond.

* *for identification purposes only*