



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)

First Quarterly Report
2013/2014



**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET
("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED
(THE "STOCK EXCHANGE")**

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*This report, for which the board of directors ("**Directors**") of China Vanguard Group Limited ("**Company**") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules ("**Listing Rules**") Governing the Listing of Securities on the GEM 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 (“**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 ended 30 September 2013 (“**Period 2013**”), together with the comparative unaudited figures for the corresponding period in 2012 (“**Period 2012**”), are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		(Unaudited)	
		Three months ended	
		30 September	
		2013	2012
	<i>Notes</i>	HK\$'000	HK\$'000
			(restated)
Revenue	2	12,188	9,228
Costs of sales		(441)	(803)
Gross profit		11,747	8,425
Other revenue		178	335
Selling and distribution costs		(241)	(105)
Administrative expenses		(15,830)	(17,471)
Operating loss		(4,146)	(8,816)
Finance costs		(2,230)	(3,581)
Share of losses of jointly control entities		(565)	(315)
LOSS BEFORE TAXATION		(6,941)	(12,712)
Income tax expenses	3	(118)	(63)
LOSS FOR THE PERIOD		(7,059)	(12,775)
OTHER COMPREHENSIVE INCOME			
Exchange difference on translation of financial statements of foreign operations		351	2,445
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		(6,708)	(10,330)

		(Unaudited)	
		Three months ended	
		30 September	
		2013	2012
<i>Notes</i>		HK\$'000	HK\$'000 (restated)
LOSS ATTRIBUTABLE TO:			
	Equity holders of the Company	(6,843)	(12,659)
	Non-controlling interests	(216)	(116)
	LOSS FOR THE PERIOD	<u>(7,059)</u>	<u>(12,775)</u>
TOTAL COMPREHENSIVE INCOME			
ATTRIBUTABLE TO:			
	Equity holders of the Company	(6,498)	(11,026)
	Non-controlling interests	(210)	696
	TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>(6,708)</u>	<u>(10,330)</u>
LOSS PER SHARE (HK Cents)			
	Basic	<u>(0.91)</u>	<u>(1.93)</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended 30 September 2013

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 costs basis, except for certain financial instruments, which are measured at fair values.

Except as described below, the accounting policies and methods of computation used in the unaudited consolidated financial results for the three months ended 30 September 2013 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 30 June 2013.

In the current year, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations (“**new and revised HKFRSs**”) issued by the HKICPA:

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

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures*, and the guidance contained in a related interpretation, HK(SIC) — Int 13 *Jointly-controlled Entities — Non-monetary Contributions by Venturers*. As HKFRS 11 is adopted by the Group in the accounting period beginning on 1 July 2013 when effective, proportional consolidation of jointly controlled entities (JCEs) is no longer applied. Instead, JCE meet the definition of a joint venture under HKFRS 11 must be accounted for using equity method in accordance with HKAS 28 (Revised) *Investments in associates and joint ventures*. Upon the adoption of HKFRS 11, the Group has changed the accounting for investments in JCEs from proportionate consolidation to the equity accounting method from the date of acquisition, incorporation or registration of JCEs. The comparative amount has been restated with the investments in JCEs being equity accounted for since the date of acquisition, incorporation or registration of JCEs.

The operating results previously reported by the Group for the three months ended 30 September 2012 have been restated to equity accounting for the Group's joint controlled entities as set out below:

	The Group (as previously reported) <i>HK\$'000</i>	Jointly controlled entities <i>HK\$'000</i>	The Group <i>HK\$'000</i> (restated)
Revenue	20,879	(11,651)	9,228
Cost of sales	(8,072)	7,269	(803)
Other income	639	(304)	335
Selling and distribution costs	(2,589)	2,484	(105)
Administrative expenses	(20,507)	3,036	(17,471)
Finance costs	(3,581)	—	(3,581)
Share of losses of jointly controlled entities	—	(315)	(315)
Income tax expenses	(74)	11	(63)
	<u>(13,305)</u>	<u>530</u>	<u>(12,775)</u>
Loss for the period			
Attributable to:			
Equity holders of the Company	(12,659)	—	(12,659)
Non-controlling interests	(646)	530	(116)
	<u>(13,305)</u>	<u>530</u>	<u>(12,775)</u>

Except as described above, the application of the other new or revised HKFRSs in the current year has no material effect on the amounts reported and/or disclosures set out in these unaudited consolidated financial results.

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

HKAS 32 (Amendments)	Offsetting financial assets and financial liabilities ¹
HKAS 36 (Amendments)	Recoverable amount disclosures for non-financial assets ¹
HKAS 39 (Amendments)	Novation of derivatives and continuation of hedge accounting ¹
HKFRS 9	Financial instruments ²
HKFRS 9 and HKFRS 7 (Amendments)	Mandatory effective date of HKFRS 9 and transition disclosures ²
HKFRS 10, HKFRS 12 and HKAS 27	Investment entities ¹
HK(IFRIC) — INT 21	Levies ¹

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

² Effective for annual periods beginning on or after 1 January 2015

2. REVENUE

The principal activities of the Group are (i) provision of lottery-related services; (ii) provision entertainment value-added services (“VAS”); (iii) land and property development; and (iv) others.

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 2013 (Period 2012: Nil).

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

4. DIVIDEND

The Board does not recommend the payment of any dividend for the three months ended 30 September 2013 (Period 2012: Nil).

5. 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	Three months ended	
	30 September	
	2013	2012
	HK\$'000	HK\$'000
Loss for the period attributable to the equity holder of the Company	<u>(6,843)</u>	<u>(12,659)</u>
Number of shares	Three months ended	
	30 September	
	2013	2012
	'000	'000
Weighted average number of ordinary shares for the purposes of basic loss per share (<i>Note a</i>)	<u>754,379</u>	<u>654,379</u>

Note:

- (a) At an extraordinary general meeting of the Company held on 31 January 2013, an ordinary resolution was passed for every five authorized issued and unissued shares of HK\$0.01 each were consolidated into one consolidated share of HK\$0.05 each. The Comparative amount of the basic loss per share for the period 2012 has been adjusted to reflect the impact of the share consolidation.

As the Company did not have outstanding share option and convertible bond as at 30 September 2013, the calculation of diluted loss per share is the same as the basic loss per share.

For Period 2012, outstanding share options and convertible bonds of the Company are anti-dilutive since their exercise or concession would result in a decrease in loss per share.

6. MOVEMENT OF RESERVES

For the period ended 30 September 2013

	Attributable to equity holders of the Company								
	Share premium	Capital redemption reserve	Employee share-based compensation reserve	Share option reserve	Translation reserve	Special reserve	Capital reserve	Accumulated losses	Total
At 1 July 2013 (restated)	2,195,554	234	35,572	—	19,278	(1)	10,195	(2,258,364)	2,468
Loss for the period	—	—	—	—	—	—	—	(6,843)	(6,843)
Exchange differences arising from translation of financial statements of overseas operations	—	—	—	—	345	—	—	—	345
Total comprehensive income for the period	—	—	—	—	345	—	—	(6,843)	(6,498)
At 30 September 2013	<u>2,195,554</u>	<u>234</u>	<u>35,572</u>	<u>—</u>	<u>19,623</u>	<u>(1)</u>	<u>10,195</u>	<u>(2,265,207)</u>	<u>(4,030)</u>

For the period ended 30 September 2012 (restated)

	Attributable to equity holders of the Company								
	Share premium	Capital redemption reserve	Employee share-based compensation reserve	Share option reserve	Translation reserve	Special reserve	Capital reserve	Accumulated losses	Total
At 1 July 2012	2,165,054	234	35,572	11,092	12,904	(1)	10,195	(2,227,934)	7,116
Loss for the period	—	—	—	—	—	—	—	(12,659)	(12,659)
Exchange differences arising from translation of financial statements of overseas operations	—	—	—	—	1,633	—	—	—	1,633
Total comprehensive income for the period	—	—	—	—	1,633	—	—	(12,659)	(11,026)
At 30 September 2012	<u>2,165,054</u>	<u>234</u>	<u>35,572</u>	<u>11,092</u>	<u>14,537</u>	<u>(1)</u>	<u>10,195</u>	<u>(2,240,593)</u>	<u>(3,910)</u>

MANAGEMENT DISCUSSION AND ANALYSIS

The HKICPA issued HKFRS 11 — Joint Arrangements in June 2011, which changed the regulation on the measurement of investors' equity in jointly controlled entities by moving the option of proportionate consolidation when accounting for jointly controlled entities and requiring the use of equity method. This standard is effective for annual periods beginning on or after 1 January 2013. As such, the Group adopted equity method to consolidate the jointly controlled entities when preparing the consolidated financial statements for the year beginning on 1 July 2013, instead of proportionate consolidation.

From this report onwards, financial data of the Group contained herein for the purpose of discussion and comparison is prepared by using equity method.

Financial Review

The principal activities of the Group are (i) the provision of lottery-related services; (ii) the provision of entertainment value-added services (“VAS”); and (iii) land and property development.

For Period 2013, the Group recorded unaudited consolidated revenue of HK\$12.2 million, up 32.1% against Period 2012's HK\$9.2 million. The increase in revenue was predominantly due to increased revenue from the lottery-related business. The gross profit ratio increased to 96.4% as compared with Period 2012's 91.3%.

For Period 2013, the Group recorded a net loss attributable to the equity holders of HK\$6.8 million, down 45.9% against HK\$12.7 million for the Period 2012. Selling and distribution costs and administrative expenses in Period 2013 amounted to HK\$16.1 million, decreased 8.6% as compared to HK\$17.6 million in Period 2012.

Business Review

Due to the new opportunities brought up by our proprietary self-service related lottery products, we have successfully gained another business coverage in a strategically important location, Shanghai, via a service contract with the domestic welfare lottery centre. Further, we have expanded our distribution network by blending the lottery sales into daily life. We recently, through collaboration, to start a lottery theme restaurant in promoting our touchscreen based self-service lottery sales system, which can bring out the excitement from our interactive, eye catching lottery games mixing with the enjoyment of the good food. As for our land and property development operations, our hard work committed in investment promotion for the Hong Kong-Taiwan Industrial Park (“HKT Industrial Park”) has shortlisted to several potential manufacturers which we actively in further discussion the possibility moving in the HKT Industrial Park Phase 2. We continue assiduously to complete the prerequisite procedures for first batch of land auction.

Lottery 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 operate a lottery distribution network in China. Our operations cover Zhejiang, Heilongjiang, Chongqing, Tianjin, Jilin, Shanghai and Shenzhen.

One of the major achievements during this reporting period was that we have successfully expanded our business coverage into one of the most prosperous location in China, Shanghai, through our proprietary short message system (“SMS”) and interactive voice response (“IVR”) lottery transaction platforms. This proven our research and development capabilities have carried us from traditional backbone lottery transaction solution to our proprietary self-service lottery sales system with innovative game designs and to further expanded our product range to cover telephone and mobile phone lottery sales market.

Lottery sales in China continue seeking for catalyst to boost the lottery sales. Bringing in more new games and expand the customer base are key drivers for the growth of lottery sales. Blending lottery sales into the daily life is a good way to enhance the exposure of the lottery sales to the general public. In which, our lottery distribution network is developing towards.

In Tianjin, our lottery distribution network has expanded from traditional coverage such as street level outlets to various new locations such as Tianjin airport, franchised chain of one of the largest supermarket chain operator in China. In attempt in lottery sales into the daily life, we recently, through collaboration, to start a lottery theme restaurant in promoting our touchscreen based self-service lottery sales system, which can bring out the excitement from our interactive, eye catching lottery games mixing with the enjoyment of the good food.

Our proprietary tablet touch-screen based high frequency lottery game product for karaoke venues in Chongqing has successfully been registered the intellectual property rights during this reporting period.

Land and Property Development Operations

The Group via its wholly owned subsidiary, Jovial Sky Limited, has formed a joint venture, Guizhou Dalong China Vanguard Development Company Limited, which is engaged in class 1 land development work and the promotion of the sales of land in the Guizhou Dalong Economic Development Zone (the “Zone”).

The success in our promotion event for Hong Kong and Taiwan Industrial Park (the “HKT Industrial Park”) Phase 2 with the cooperation with the Shenzhen Printed-Circuit Board Association has shortlisted to several potential manufacturers which we actively in further discussion the possibility moving in the HKT Industrial Park Phase 2. We will continue to work on our industrial land promotion work and believe our hard work devoted in investment promotion will enhance development of the Zone.

As for the commercial land development, we continue assiduously to complete the prerequisite procedures for first batch of land auction. The first batch of land commercial land is expected to be ready for land auction during the second half of 2013.

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. During the reporting period, the administration review regarding the shareholding of our royalty collection arm still in process. We will make further announcement as and when appropriate.

FUTURE OUTLOOK AND PROSPECTS

We believe in using our uplifted sales model to explore new lottery distribution channels will give advantageous to the Group in growing our lottery-related operation. While utilizing our proprietary self-service lottery related products to broaden the lottery to various customer profiles we also expands our lottery distribution network during the process. In addition, we expect to have more collaborations with strategic partners and major players in different industries to create synergistic effects and enhance our competitiveness.

We intend to utilize the resources and experiences gained by our land and property development operations to seek further opportunities in land and property development in China and Hong Kong with the view and desire to further strengthen our land and property development operations and bringing in the positive results at the same time.

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

As at 30 September 2013, 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 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 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	Interest in controlled corporation	Number of ordinary shares held			Approximate percentage of shareholding
			Beneficial owner	Family interest	Total interest	
Cheung Kwai Lan ("Madam Cheung")	Company	335,291,464 (Note 1)	414,000 (Note 2)	—	335,705,464	44.50%

Name of Directors	Company/ Name of associated corporation	Interest in controlled corporation	Number of ordinary shares held			Approximate percentage of shareholding
			Beneficial owner	Family interest	Total interest	
Chan Tung Mei ("Mr. Chan")	Company	—	—	335,705,464 (Notes 1 & 2)	335,705,464	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 335,291,464 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 335,291,464 shares by virtue of being the spouse of Madam Cheung under the SFO.
2. The 414,000 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 the share option scheme which remained valid for a period for 10 years commencing from 31 January 2013. For the period ended 30 September 2013, no share option had been granted or agreed to be granted.

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 three months ended 30 September 2013.

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

As at 30 September 2013, 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:

Name of Shareholder	Capacity	Number of shares held		Approximate percentage of shareholding
		Long position	Short position	
Best Frontier	Beneficial Owner	335,291,464 <i>(Note 1)</i>	—	44.45%
Tarascon Asia Absolute Fund (Cayman) Ltd	Beneficial Owner	113,720,000	—	15.07%
	Person having a security interest in shares	37,000,000	—	4.90%
	Beneficial Owner	—	40,000,000	5.30%

Note:

- The 335,291,464 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 30 September 2013, 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, 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.

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

During the three months ended 30 September 2013, 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 30 September 2013, 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.

CORPORATE GOVERNANCE

Corporate governance practices

During the reporting period, the Company has complied with the Code (the “**CG Code**”) of Corporate Governance Practices as set out in Appendix 15 of the Listing Rules save and except that all independent non-executive Directors (“**INEDs**”) are not appointed for a specific term under code provision A.4.1 of the CG Code.

The INEDs of the Company were not appointed for a specific term 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 INEDs have given the Company’s shareholders the right to approve continuation of INEDs’ offices.

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 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 Listing Rules and consisted of three INEDs, namely Mr. Zhang Xiu Fu, Mr. Yang Qing Cai and Mr. To Yan Ming Edmond who 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 report 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 three months ended 30 September 2013 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
Executive Director

Hong Kong, 14 November 2013

As at the date of this report, the board of directors of the Company comprises Madam Cheung Kwai Lan, Mr. Chan Ting as Executive Directors, Mr. Chan Tung Mei as Non-executive Director and Mr. Zhang Xiu Fu, Mr. Yang Qing Cai and Mr. To Yan Ming Edmond as Independent Non-executive Directors.

* *For identification purposes only*