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INTERIM REPORT
2017 / 2018



眾彩羽翔股份有限公司*
China Vanguard You Champion Holdings Limited
(Formerly known as China Vanguard Group Limited)

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 8156

*For identification purposes only

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INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

RESULTS

The board of Directors (the “**Board**”) of the Company is pleased to announce that the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “**Group**”) for the three months and six months ended 31 December 2017 (“**Period 2017**”), together with the selected comparative unaudited figures for the corresponding period in 2016 (“**Period 2016**”), are as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months and six months ended 31 December 2017

	Notes	(Unaudited) Three months ended 31 December		(Unaudited) Six months ended 31 December	
		2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Revenue	3	6,174	7,145	12,865	15,333
Costs of sales		(733)	(1,237)	(1,292)	(2,344)
Gross profit		5,441	5,908	11,573	12,989
Other income	3	2,448	826	2,973	1,204
Selling and distribution expenses		(316)	(2,227)	(945)	(3,874)
Administrative and operating expenses		(19,772)	(26,045)	(40,157)	(49,873)
Operating loss		(12,199)	(21,538)	(26,556)	(39,554)
Finance costs	4	(3,438)	(3,277)	(6,797)	(6,561)
Share of results of joint ventures		—	(533)	—	(541)
Loss before tax	5	(15,637)	(25,348)	(33,353)	(46,656)
Income tax credit	6	271	1,273	528	1,677
Loss for the period		(15,366)	(24,075)	(32,825)	(44,979)
Loss for the period attributable to:					
Equity holders of the Company		(15,237)	(22,361)	(30,908)	(41,495)
Non-controlling interests		(129)	(1,714)	(1,917)	(3,484)
		(15,366)	(24,075)	(32,825)	(44,979)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

Notes	(Unaudited) Three months ended 31 December		(Unaudited) Six months ended 31 December	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Other comprehensive loss for the period, net of tax:				
<i>Items that may be reclassified subsequently to profit or loss:</i>				
Exchange differences arising on translation of financial statements of overseas operations	893	(3,302)	1,782	(4,020)
Total comprehensive loss for the period	(14,473)	(27,377)	(31,043)	(48,999)
Total comprehensive loss for the period attributable to:				
Equity holders of the Company	(14,463)	(25,193)	(29,414)	(45,006)
Non-controlling interests	(10)	(2,184)	(1,629)	(3,993)
	(14,473)	(27,377)	(31,043)	(48,999)
Loss per share attributable to equity holders of the Company				
Basic	(HK0.46 cent)	(HK0.69 cent)	(HK0.94 cent)	(HK1.29 cent)
Diluted	N/A	N/A	N/A	N/A

The accompanying notes on page 6 to 19 form an integral part of this interim financial report.



INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	(Unaudited) 31 December 2017 HK\$'000	(Audited) 30 June 2017 HK\$'000
Non-current assets			
Property, plant and equipment	8	7,908	13,260
Goodwill		105,733	62,746
Intangible assets		33,488	8,509
Interests in joint ventures		—	—
		147,129	84,515
Current assets			
Inventories		1,232	1,692
Trade and other receivables and prepayments	9	33,677	33,554
Bank balances and cash		9,770	14,302
		44,679	49,548
Current liabilities			
Trade payables, accruals and other payables	10	94,196	17,125
Amount due to directors		28,579	15,076
Obligation under finance leases — current portion	11	191	188
Convertible bonds	12	89,301	89,301
Deferred tax liabilities		54	54
Tax liabilities		1,440	1,382
		213,761	123,126
Net current liabilities		(169,082)	(73,578)
Total assets less current liabilities		(21,953)	10,937
Non-current liabilities			
Obligation under finance leases	11	248	344
		248	344
Net (liabilities)/assets		(22,201)	10,593
Capital and reserves			
Share capital	13	41,135	41,135
Reserves		(64,084)	(41,781)
Equity attributable to equity holders of the Company		(22,949)	(646)
Non-controlling interests		748	11,239
(Capital deficiency)/total equity		(22,201)	10,593

The accompanying notes on page 6 to 19 form an integral part of this interim financial report.

INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2017

	Attributable to equity holders of the Company												
	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	Convertible bonds reserve HK\$'000	Special reserve HK\$'000	Capital reserve HK\$'000	Retained profits/(Accumulated losses) HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 July 2017 (audited)	41,135	2,480,372	1,484	35,572	1,547	5,543	2,672	(1)	5,769	(2,574,739)	(646)	11,239	10,593
Loss for the period	-	-	-	-	-	-	-	-	-	(30,908)	(30,908)	(1,917)	(32,825)
Exchange differences arising from translation of financial statements of overseas operations	-	-	-	-	-	1,494	-	-	-	-	1,494	288	1,782
Total comprehensive (loss)/income for the period	-	-	-	-	-	1,494	-	-	-	(30,908)	(29,414)	(1,629)	(31,043)
Amendments to the terms of convertible bonds	-	-	-	-	-	-	528	-	-	2,672	3,200	-	3,200
Deferred tax liabilities arising from amendments to the terms of convertible bonds	-	-	-	-	-	-	(528)	-	-	-	(528)	-	(528)
Recognition of equity-settled share-based payments	-	-	-	-	24	-	-	-	-	-	24	-	24
Share options lapsed	-	-	-	-	(1,257)	-	-	-	-	1,257	-	-	-
Contributions from non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(3,919)	(3,919)
Disposal of interest in subsidiary	-	-	-	-	-	-	-	-	4,415	-	4,415	(4,943)	(528)
At 31 December 2017 (unaudited)	41,135	2,480,372	1,484	35,572	314	7,037	2,672	(1)	10,184	(2,601,718)	(22,949)	748	(22,201)

For the six months ended 31 December 2016

	Attributable to equity holders of the Company												
	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	Convertible bonds reserve HK\$'000	Special reserve HK\$'000	Capital reserve HK\$'000	Retained profits/(Accumulated losses) HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 July 2016 (audited)	40,338	2,442,537	1,484	35,572	10,056	6,522	24,184	(1)	5,769	(2,430,120)	136,341	13,140	149,481
Loss for the period	-	-	-	-	-	-	-	-	-	(41,495)	(41,495)	(3,484)	(44,979)
Exchange differences arising on translation of financial statements of overseas operations	-	-	-	-	-	(3,511)	-	-	-	-	(3,511)	(509)	(4,020)
Total comprehensive loss for the period	-	-	-	-	-	(3,511)	-	-	-	(41,495)	(45,006)	(3,993)	(48,999)
Recognition of equity-settled share-based payments	-	-	-	-	562	-	-	-	-	-	562	-	562
Share options lapsed	-	-	-	-	(3,067)	-	-	-	-	3,067	-	-	-
Contribution from non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	3,488	3,488
At 31 December 2016 (unaudited)	40,338	2,442,537	1,484	35,572	7,551	3,011	24,184	(1)	5,769	(2,468,548)	91,897	12,635	104,532

The accompanying notes on page 6 to 19 form an integral part of this interim financial report.

INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2017

	(Unaudited)	
	Six months ended	
	31 December	
	2017	2016
	HK\$'000	HK\$'000
Operating activities		
Cash used in operations	(19,025)	(22,154)
Interest received	3	95
Interest paid	(12)	(7)
Income tax paid	—	(668)
Net cash used in operating activities	(19,034)	(22,734)
Investing activities		
Acquisition of subsidiaries	—	(3,542)
Contribution from non-controlling interests in a subsidiary	105	3,488
Additions in property, plant and equipment	(749)	(905)
Additions in intangible assets	—	(120)
Proceed from disposal of property, plant and equipment	—	141
Net cash used in investing activities	(644)	(938)
Financing activities		
Repayment of finance lease	(742)	(24)
Advance from directors	13,503	7,387
Net cash flow generated from financing activities	12,761	7,363
Net decrease in cash and cash equivalents	(6,917)	(16,309)
Cash and cash equivalents at the beginning of the period	14,302	32,999
Effects of foreign exchange rate changes	2,385	(2,780)
Cash and cash equivalents at the end of the period, represented by cash and bank balances	9,770	13,910

The accompanying notes on page 6 to 19 form an integral part of this interim financial report.



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2017

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited interim condensed consolidated financial statements for the six months ended 31 December 2017 have been prepared in accordance with Hong Kong Accounting Standards (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the applicable disclosure requirements of the GEM Listing Rules.

Except as described below, the principal accounting policies and methods of computation used in the preparation of the unaudited interim consolidated financial statements for the six months ended 31 December 2017 are consistent with the financial statements of the Group for the year ended 30 June 2017.

The Group has adopted all of the new and revised standards, amendments and interpretations which are relevant to its operations and effective for the accounting period beginning on 1 July 2017. The adoption of these new and revised standards, amendments and interpretation does not have significant impact on the accounting policies of the Group, and the amounts reported for the current period and prior periods.

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2017

2. SEGMENT INFORMATION

(a) Segment revenue and results

The following is an analysis of the Group's revenue and results by operating segments:

Six months ended 31 December 2017 (Unaudited)

	Lottery- related services HK\$'000	Others HK\$'000	Total HK\$'000
Segment revenue:			
Sales to external customers	11,383	1,482	12,865
Segment results	(22,783)	(3,139)	(25,922)
Unallocated income			2,453
Unallocated expenses			(3,087)
Finance costs			(6,797)
Loss before tax			(33,353)
Income tax credit			528
Loss for the period			(32,825)
Amounts included in the measure of segment profit or loss or segment assets:			
Additions to property, plant and equipment	325	424	749
Depreciation and amortization	3,297	144	3,441

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2017

Six months ended 31 December 2016 (Unaudited)

	Lottery- related services HK\$'000	Others HK\$'000	Total HK\$'000
Segment revenue:			
Sales to external customers	13,647	1,686	15,333
Segment results	(36,007)	(246)	(36,253)
Unallocated income			175
Unallocated expenses			(3,476)
Share of results of joint ventures			(541)
Finance costs			(6,561)
Loss before tax			(46,656)
Income tax credit			1,677
Loss for the period			(44,979)
Amounts included in the measure of segment profit or loss or segment assets:			
Additions to property, plant and equipment	1,340	214	1,554
Depreciation and amortization	4,247	256	4,503



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2017

(b) Segment assets and liabilities

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

As at 31 December 2017 (Unaudited)

	Lottery- related services HK\$'000	Others HK\$'000	Total HK\$'000
Assets			
Segment assets	164,071	1,802	165,873
Unallocated assets			25,935
Total assets			191,808
Liabilities			
Segment liabilities	36,627	1,411	38,038
Unallocated liabilities			86,670
Convertible bonds			89,301
Total liabilities			214,009

As at 30 June 2017 (Audited)

	Lottery- related services HK\$'000	Others HK\$'000	Total HK\$'000
Assets			
Segment assets	131,307	2,220	133,527
Unallocated assets			536
Total assets			134,063
Liabilities			
Segment liabilities	29,195	1,571	30,766
Unallocated liabilities			3,403
Convertible bonds			89,301
Total liabilities			123,470

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2017

3. REVENUE AND OTHER INCOME

The principal activities of the Group are (i) provision of lottery-related services and (ii) others (including the provision of catering services, consulting services and internet plus solution services).

Revenue represents invoiced value of sales, net of returns, discounts allowed or sales taxes where applicable. Revenue recognized during the period is as follows:

	(Unaudited) Six months ended 31 December	
	2017 HK\$'000	2016 HK\$'000
Revenue		
Provision of lottery-related services	11,383	13,647
Others	1,482	1,686
	12,865	15,333
Other income		
Interest income	3	43
Gain on disposal of subsidiaries	2,159	—
Others	811	1,161
	2,973	1,204

4. FINANCE COSTS

	(Unaudited) Six months ended 31 December	
	2017 HK\$'000	2016 HK\$'000
Interest on:		
— Convertible bonds	6,785	6,554
— Finance lease payment	12	7
	6,797	6,561



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2017

5. LOSS BEFORE TAX

	(Unaudited) Six months ended 31 December	
	2017 HK\$'000	2016 HK\$'000
Loss before tax has been arrived at after charging:		
Cost of inventories sold	1,292	2,344
Equity-settled share-based payments	24	562
Depreciation of property, plant and equipment	2,737	2,692
Amortization of intangible assets	1,450	1,811
Exchange losses, net	245	1,749

6. INCOME TAX CREDIT

The amount of tax credit to the consolidated statement of profit or loss and other comprehensive income represents:

	(Unaudited) Six months ended 31 December	
	2017 HK\$'000	2016 HK\$'000
Over provision in the prior periods — Hong Kong profits tax	—	20
Deferred tax	528	1,657
Income tax credit for the period	528	1,677

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 2017 (three months and six months ended 31 December 2016: HK\$Nil).

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2017

7. LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

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

Loss

	(Unaudited) Three months ended 31 December		(Unaudited) Six months ended 31 December	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Loss for the period attributable to the equity holders of the Company	(15,237)	(22,361)	(30,908)	(41,495)

Number of shares

	(Unaudited) Three months ended 31 December		(Unaudited) Six months ended 31 December	
	2017 '000	2016 '000	2017 '000	2016 '000
Weighted average number of ordinary shares for the purposes of basic loss per share	3,290,855	3,227,065	3,290,855	3,227,065
Weighted average number of ordinary shares for the purposes of diluted loss per share	3,290,855	3,227,065	3,290,855	3,227,065

For the three months and six months ended 31 December 2017, outstanding share options and convertible bonds of the Company are anti-dilutive (Three months and six months ended 31 December 2016: anti-dilutive) since their exercise or conversion would result in a decrease in loss per share (Three months and six months ended 31 December 2016: decrease in loss per share).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2017

8. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Furniture, fixtures and equipment HK\$'000	Plant and machinery HK\$'000	Leasehold improvement HK\$'000	Motor vehicles HK\$'000	Computer equipment HK\$'000	Total HK\$'000
Carrying amount at 1 July 2017, net of accumulated depreciation (audited)	—	1,563	88	2,322	1,867	7,420	13,260
Additions	—	51	—	334	—	288	673
Depreciation provided for the period	—	(202)	—	(724)	(230)	(1,581)	(2,739)
Elimination on disposals	—	(40)	—	(116)	—	(3,583)	(3,739)
Exchange realignment	—	62	4	78	26	281	451
At 31 December 2017, net of accumulated depreciation (unaudited)	—	1,434	92	1,894	1,663	2,825	7,908

9. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	(Unaudited) 31 December 2017 HK\$'000	(Audited) 30 June 2017 HK\$'000
Trade receivables	79,930	82,195
Other receivables and prepayments	45,247	40,572
	125,177	122,767
Less: Allowances for doubtful receivables	(91,500)	(89,213)
	33,677	33,554

Payment terms with customers are mainly on credit. Invoices are normally payable within 30 to 180 days of issuance.

The following is an aged analysis of trade receivables at the end of the reporting period:

	(Unaudited) 31 December 2017 HK\$'000	(Audited) 30 June 2017 HK\$'000
0 to 30 days	2,770	4,919
31 to 60 days	2,595	1,314
61 to 180 days	—	5,993
181 to 365 days	69	339
Over 1 year	74,496	69,630
	79,930	82,195

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2017

10. TRADE PAYABLES, ACCRUALS AND OTHER PAYABLES

	(Unaudited) 31 December 2017 HK\$'000	(Audited) 30 June 2017 HK\$'000
Trade payables	374	1,106
Accruals and other payables	93,822	16,019
	94,196	17,125

An aged analysis of the Group's trade payables at the end of the reporting period, based on the date of goods and services received, is as follows:

	(Unaudited) 31 December 2017 HK\$'000	(Audited) 30 June 2017 HK\$'000
0-30 days	—	921
31-120 days	—	—
121-180 days	—	—
181-365 days	—	50
Over 1 year	374	135
	374	1,106

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2017

11. OBLIGATION UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	(Unaudited) At 31 December 2017 HK\$'000	(Audited) At 30 June 2017 HK\$'000	(Unaudited) At 31 December 2017 HK\$'000	(Audited) At 30 June 2017 HK\$'000
Within one year	202	202	191	188
In the second to fifth year inclusive	253	353	248	344
Less: future finance charges	455 (16)	555 (23)		
Present value of lease obligation	439	532	439	532
Less: amount due within one year shown under current liabilities			(191)	(188)
Amount due after one year			248	344

12. CONVERTIBLE BONDS

On 17 January 2014, the Company issued convertible bonds due on 17 January 2017 with a principal amount of HK\$89,625,000, which is interest bearing at a rate of 2% per annum, as general working capital and repayment of borrowings (the "Bonds"). The Bonds are convertible into fully-paid ordinary shares with a conversion price of HK\$2.39 per share. The conversion price has been adjusted to HK\$0.598 per share upon share subdivision on 17 December 2014.

Upon full conversion of the Bonds at the conversion price of HK\$0.598 (adjusted) per ordinary share of the Company, a total of 150,000,000 shares (adjusted) would be issued by the Company upon the exercise of the conversion rights attached to the Bonds. The Company shall redeem any Bonds which remain outstanding on the maturity date at its principal amount.

The Bonds contain liability and equity components. The effective interest rate of the liability component is 13.89% per annum. The equity component is presented under the equity heading of "convertible bonds reserve".

The fair value of the liability component of the Bonds at the issue date was valued by an independent valuer determined based on the present value of the estimated future cash outflows discounted at the prevailing market rate for an equivalent non-convertible loan.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2017

On 18 January 2017, the Company and the Bondholder entered into the Amendment Agreement and agreed to amend some principal terms of the Bonds, where (i) the conversion price shall be amended to HK\$0.359 per share which can be converted into for the maximum number of 249,651,810 Shares; (ii) the maturity date shall be extended for six months from 17 January 2017 to 17 July 2017 with a further six months extension upon a prior written consent from the Bondholder; and (iii) the interest rates shall be increased to 8% per annum and shall be paid semi-annually.

On 18 January 2018, the Company entered into the Second Amendment Agreement with the bondholder, pursuant to which both parties agreed to amend some principal terms of the Convertible Bonds maturing on 17 January 2018, where the maturity date shall be extended for six months from 17 January 2018 to 17 July 2018 with a further six months extension upon a prior written consent from the bondholder.

The Bonds have been split between the liability and equity components as follows:

	(Unaudited) 31 December 2017 HK\$'000	(Audited) 30 June 2017 HK\$'000
Nominal value of the Bonds issued	89,625	89,625
Equity component	(3,200)	(3,200)
Liability component at the issuance date	86,425	86,425
Imputed finance costs	6,122	6,122
Interest paid and payable	(3,246)	(3,246)
Carrying amount	89,301	89,301

13. SHARE CAPITAL

	Number of shares '000	Amount HK\$'000
Authorised:		
At 1 July 2017 and 31 December 2017, ordinary shares of HK\$0.0125 each (unaudited)	16,000,000	200,000
Issued and fully paid:		
At 1 July 2017 and 31 December 2017, ordinary shares of HK\$0.0125 each (unaudited)	3,290,855	41,135



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2017

14. OPERATING LEASE COMMITMENTS

The Group as lessee

At 31 December 2017, the Group had commitments for future minimum lease payments in respect of rented premises under non-cancellable operating leases which fall due as follows:

	(Unaudited) 31 December 2017 HK\$'000	(Audited) 30 June 2017 HK\$'000
Within one year	4,292	5,841
In the second to fifth year inclusive	430	1,762
	4,722	7,603

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

Leases are negotiated for an average term of 1 to 5 years.

The Group as lessor

At 31 December 2017, 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 2017 HK\$'000	(Audited) 30 June 2017 HK\$'000
Within one year	—	2,095
In the second to fifth year inclusive	—	2,372
	—	4,467

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2017

15. CAPITAL COMMITMENTS

	(Unaudited) 31 December 2017 HK\$'000	(Audited) 30 June 2017 HK\$'000
Capital expenditure in respect of addition equity interest in subsidiaries	39,003	40,561
Capital expenditure in respect of investment in joint ventures	11,224	10,971
	50,227	51,532

16. 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 2017 was as follows:

	(Unaudited) Three months ended 31 December		(Unaudited) Six months ended 31 December	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Short-term benefits	4,046	4,464	8,182	8,813
Post-employment benefits	27	24	54	51
	4,073	4,488	8,236	8,864

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

Balances with related parties

As at 31 December 2017, amounts due to directors of approximately HK\$28,579,000 (30 June 2017: approximately HK\$15,076,000) are unsecured, interest free and have no fixed repayment term.

As at 31 December 2017, amounts due from related companies of approximately HK\$2,284,000 (30 June 2017: approximately HK\$1,762,000). The amounts are unsecured, interest free and have no fixed repayment terms.



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2017

17. EVENTS AFTER THE REPORTING PERIOD

On 18 January 2018, the Company entered into the Second Amendment Agreement with the bondholder, pursuant to which both parties agreed to amend the terms of the Convertible Bonds maturing on 17 January 2018, where the maturity date shall be extended for six months from 17 January 2018 to 17 July 2018 with a further six months extension upon a prior written consent from the bondholder.

The Second Amendment Agreement, Proposed Amendments and transactions contemplated thereunder are subject to the approval by the independent shareholders of the Company at the forthcoming extraordinary general meeting, and the Stock Exchange approving the Proposed Amendments and the listing on the Stock Exchange of conversion shares arising from the Convertible Bonds.



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The principal activities of the Group are (i) the provision of lottery-related services and (ii) others.

For Period 2017, the Group recorded unaudited consolidated revenue of HK\$12.9 million, decreased by 15.7% against Period 2016 of HK\$15.3 million. Revenue decreased as the result of a decline in sales of lottery related business. The gross profit ratio increased to about 90% as compared with 84.7% for Period 2016.

For Period 2017, the Group recorded a net loss attributable to the equity holders of HK\$30.9 million, decreased 25.5% from HK\$41.5 million for Period 2016. Loss attributable to equity holders was HK\$15.2 million from the second quarter of Period 2017, decreased by 32.1% from HK\$22.4 million for Period 2016. Selling and distribution expenses and administrative expenses in Period 2017 amounted to HK\$41.1 million, decreased 23.5% as compared to HK\$53.7 million in Period 2016.

BUSINESS REVIEW

The Group has been continually providing the leading hardware and software solutions to the lottery industry in a number of provinces and cities in the PRC. At the same time, the business transformation of the Group into the “Internet Plus” market segment has been carried on and has achieved initial successes including being recognized by the leading players in the PRC’s Internet industry.

The Group’s “Internet Plus” solutions have been recognized by the leading internet players in the PRC because our solutions can provide premium users’ experience and meet the requirements of the clients, especially clients from the government sector. The Group also demonstrated its high capability in applying various technologies from the leading internet players into actual applications. One of the typical examples is the solution the Group provided to Shenzhen Traffic Police (the “**SZTP**”), SZTP Star Users Service Platform (深圳交警星級用戶服務平台) (the “**Star Users platform**”), which has successfully created a new standard of its kind among the industry. The Star Users platform provides the relevant convenient traffic police services to the general public on a 24-hours basis. On the back of the positive feedbacks, the Group’s “Internet Plus” solutions have become the showcase in various conferences hosted by those leading Internet players, such as Tencent’s mobile internet partners’ conference in Shenzhen in December 2017 and Alibaba’s Computing Conference in Hangzhou (also known as “雲栖大會”) in October 2017.

One of the key milestones of the Group’s transformation into “Internet Plus” was the cooperation with one of the leading internet companies in the PRC. In October 2017, the Group, through its subsidiary, has entered into a legally binding strategic cooperation agreement with Tencent Cloud Computing (Beijing) Company Limited (騰訊雲計算(北京)有限責任公司) (the “**Tencent Cloud**”) in four specific market segments, namely government affairs, public security, health care and lottery as nationwide priority strategic partner. The Group is expected to work closely with Tencent Cloud in exploring the potential markets in the coming years.



MANAGEMENT DISCUSSION AND ANALYSIS

Further to the above strategic partnership, in November 2017, the Group has successfully entered into an agreement with Information Centre of Housing and Construction Bureau of Shenzhen Municipality (the “**HCBSZ**”) for the development of a revolutionize content management platform in converging and managing all media content under the HCBSZ via WeChat (微信) (“**Weixin**”).

In addition to the above and subsequent to the review period, in January 2018, the Group while being the technical development service provider for the Shenzhen Lease Trading Service Platform, through its subsidiary, entered into a legally binding strategic cooperation agreement (the “**GZCI Strategic Cooperation Agreement**”) with Guangzhou City Construction Investments Group Smart City Technology Development Company Limited (廣州城投智慧城市科技發展有限公司) (“**GZCI Smart City**”). The purpose of entering into the GZCI Strategic Cooperation Agreement is the formation of strategic partnership between the Group and GZCI Smart City in GZCI Lease Platform and smart city market segment. During the same month, a subsidiary of the Group and GZCI Smart City have further entered into a development agreement for GZCI Residential Lease Platform (“**GZCI Development Agreement**”). In the GZCI Development Agreement, the Group as the technical service provider, is to build a one-stop WeChat (微信) (“**Weixin**”) based platform that can be connected with various types of services, in order to provide basic services on an online residential lease platform that contains public rental housing, institutional housing and private housing in Guangzhou.

Besides the development in the government affairs market, the Group has also strengthened its cooperation with Sinopharm Traditional Chinese Medicine Co. Ltd (國藥藥材股份有限公司) (the “**Sino-TCM**”), a subsidiary of China National Pharmaceutical Group (中國醫藥集團總公司), by establishing the second joint venture company in Hong Kong after the initial cooperation in Shanghai. The joint venture company in Hong Kong will be established for the e-commerce, import and export of health-related products, supply chain and related businesses. The Group will assurance the technical and operational development of the “Internet Plus” of this joint venture Company, including an online e-commerce platform with the interactive marketing solution for Hong Kong and overseas.

OUTLOOK AND STRATEGIES

The Group’s “Internet Plus” business has been progressively developing the necessary components for the long term success of this new business area. We have formed legally binding cooperation with a number of important strategic partners which are resourceful and leading players in their respective industries. At the same time, we were able to contract and to implement our solutions while building up reputation in various market segments. These meaningful achievements and recognitions not only motivate the Group to strive for continual development and innovation of our solutions, but they also create unmatched advantages in expanding into new markets and industries. The Board believes that as of this present stage of development, the infrastructure that has been built is ready for massive rollout and is expected to be the new growth engine for the Group while monetizing and creating value for the shareholders.



MANAGEMENT DISCUSSION AND ANALYSIS

DIVIDEND

The Board does not recommend the payment of dividend for the six months ended 31 December 2017 (six months ended 31 December 2016: Nil).

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2017, capital deficiency amounted to HK\$22 million (total equity as at 30 June 2017: HK\$11 million). Current assets amounted to HK\$45 million (30 June 2017: HK\$50 million), mainly comprising of trade and other receivables and prepayments, bank balances and cash. Current liabilities amount to HK\$214 million (30 June 2017: HK\$123 million), mainly comprising of convertible bonds, trade payables, accruals and other payables, and tax liabilities.

The Group's bank balances and cash amounted to HK\$10 million (30 June 2017: HK\$14 million). Net asset value per share of the Group was N/A (30 June 2017: HK\$0.003).

As at 31 December 2017, the gearing ratio of the Group was 47% (30 June 2017: 67%) on the basis of the Group's total interest-bearing borrowings divided by total assets.

SHARE CAPITAL

As at 31 December 2017, the total number of issued share of the Company was 3,290,855,068 ordinary shares of HK\$0.0125 each (the "**Shares(s)**").

CONVERTIBLE BONDS

On 17 January 2014, the Company issued unlisted convertible bonds due on 17 January 2017 with a principal amount of HK\$89,625,000 at an annual rate of 2% per annum as general working capital and for the repayment of borrowings (the "**Bonds**"). A maximum number of 37,500,000 shares would be issued by the Company upon full conversion of the Bonds at the conversion price of HK\$2.390 per share into fully-paid ordinary shares of the Company. As a result of Share Subdivision on 17 December 2014, the number of Shares fallings to be issued upon full conversion of the Bonds was adjusted to 150,000,000 at the conversion price of HK\$0.598 per share.

On 18 January 2017, the Company entered an amendment agreement with the Bondholder to amend some principal terms of the Convertible Bonds. The maturity date of the Convertible Bonds was extended for six months from 17 January 2017 to 17 July 2017, and further extended maturity date upon a written consent from the Bondholder shall be 17 January 2018. The Company received a written consent from the Bondholder, of which the maturity date of the Convertible Bonds would be extended for the further six months to 17 January 2018. Its conversion price was amended from HK\$0.598 to HK\$0.359 per conversion share, which can be converted into for the maximum number of 249,651,810 shares. The interest rate of the Convertible Bonds shall be increased to 8% per annum and paid semi-annually (the "**Amendments**"). Save for the adjustment, all other terms and conditions of the Bonds shall remain unchanged. The Amendments had been passed as an ordinary resolution by the shareholders at the extraordinary general meeting, the Company held on 29 March 2017.



MANAGEMENT DISCUSSION AND ANALYSIS

On 18 January 2018, the Company entered into the Second Amendment Agreement with the bondholder, pursuant to which both parties agreed to amend the terms of the Convertible Bonds maturing on 17 January 2018, where the maturity date shall be extended for six months from 17 January 2018 to 17 July 2018 with a further six months extension upon a prior written consent from the bondholder.

As at 31 December 2017, no conversions have been made for the Bonds issued by holders of the Bonds or redeemed by the Company.

CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

The Company has no contingent liabilities as at 31 December 2017 (30 June 2017: Nil).

No assets of the Group was pledged as securities to any third parties as at 31 December 2017 (30 June 2017: Nil).

COMMITMENTS

The Group had capital commitments of HK\$50 million and operating lease commitments as lessee of HK\$5 million from operations as at 31 December 2017 (30 June 2017: capital commitments of HK\$52 million and operating lease commitments of HK\$8 million respectively).

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

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

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2017, the Group had 29 and 157 (30 June 2017: 31 and 120) employees in Hong Kong and the PRC respectively.

Employees' remunerations are determined with reference to their performance, qualifications, experience, positions and the current trend. Apart from the basic salary and participation in the mandatory provident fund scheme and staff benefits including medical and training programs, share options may be granted to individual employee based on performance evaluation in order to provide incentives and rewards.

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 dollars ("US\$"). The Group's major investment and financing strategies are to invest in domestic projects in the PRC by RMB, HK\$ and US\$ borrowings. As the exchange rate of RMB against HK\$ is relatively stable and the Group's operating income is substantially denominated in RMB, the Group did not perform any foreign currency hedging activities during the period. Nevertheless, the Group will from time to time review and adjust the Group's investment and financing strategies based on the RMB, US\$ and HK\$ exchange rate movement.



MANAGEMENT DISCUSSION AND ANALYSIS

EVENT AFTER THE REPORTING PERIOD

Proposed Amendments to the Terms of the Convertible Bonds

On 18 January 2018, the Company entered into the Second Amendment Agreement with the bondholder, pursuant to which both parties agreed to amend the terms of the Convertible Bonds maturing on 17 January 2018, where the maturity date shall be extended for six months from 17 January 2018 to 17 July 2018 with a further six months extension upon a prior written consent from the bondholder.

The Second Amendment Agreement, Proposed Amendments and transactions contemplated thereunder are subject to the approval by the independent shareholders of the Company at the forthcoming extraordinary general meeting, and the Stock Exchange approving the Proposed Amendments and the listing on the Stock Exchange of conversion shares arising from the Convertible Bonds.

GENERAL INFORMATION

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

As at 31 December 2017, the interests and short positions of the Directors and chief executive in the ordinary share(s) of HK\$0.0125 each of the Company (the "**Share(s)**"), 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 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 into the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules to be notified to the Company and the Stock Exchange, were as follows:

1. Long Positions in the Shares of the Company or Any of Its Associated Corporation

Name of Directors	The Company/ Name of Associated Corporation	Number of Shares Held				Approximate Percentage Shareholding
		Interest in Controlled Corporation	Personal Interest	Family Interest	Total Interest	
Madam CHEUNG Kwai Lan ("Madam CHEUNG") (Note 1 & 2)	The Company	818,565,856	4,656,000	3,020,000	826,241,856	25.11%
Mr. CHAN Tung Mei ("Mr. CHAN") (Notes 1 & 3)	The Company	—	3,020,000	823,221,856	826,241,856	25.11%
Madam CHEUNG	Best Frontier Investments Limited ("Best Frontier") (Note 1)	—	909	1	910	—
Mr. CHAN	Best Frontier	—	1	909	910	—
Dr. LIU Ta-pei ("Dr. LIU") (Note 4)	The Company	—	2,620,000	—	2,620,000	0.08%
Mr. YANG Qing Cai ("Mr. YANG") (Note 5)	The Company	—	475,000	—	475,000	0.01%



GENERAL INFORMATION

Notes:

1. 818,565,856 Shares are owned by Best Frontier which is owned as to 99.89% and 0.11% by Madam CHEUNG and Mr. CHAN respectively. In addition, Madam CHEUNG and Mr. CHAN directly hold 4,656,000 Shares and 3,020,000 Shares respectively. Accordingly, Madam CHEUNG is the spouse of Mr. CHAN and so both of them are deemed to be interested in the Shares.
2. The personal interest of Madam CHEUNG represents the interest in 4,656,000 Shares.
3. The personal interest of Mr. CHAN represents the interest in 3,020,000 Shares.
4. The personal interest of Dr. LIU represents the interest in 2,620,000 Shares.
5. The personal interest of Mr. YANG represents the interest in 475,000 Shares.

Save as disclosed above, as at 31 December 2017, 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 Division 2 and 3 of Part XV of the SFO.

2. Share Options

The Company conditionally adopted a share option scheme on 31 January 2013 under which the Board may, at its discretion, invite eligible persons to take up to subscribe for the Shares in the Company (the “**Share Option Scheme**”). Eligible persons shall include any directors, employees and consultants of the Company or of any subsidiary of the Company or such other persons whom at the sole discretion of the Board are deemed to have contributed to the Group at the time when an option is granted to such person. The Share Option Scheme will remain valid for a period of 10 years commencing from the date of adoption of the Share Option Scheme.

GENERAL INFORMATION

The details of the movements in Share Options under Share Options Scheme during the period were as follows:—

Name/Category of Participants	Grant Date	Exercise Price (Note 1)	Exercisable Period	Number of Share Options					As at 31 December 2017
				As at 1 July 2017	Granted	Exercised	Cancelled	Lapsed	
Employees	13/06/2014	0.952	01/07/2015 - 30/06/2018	936,000	—	—	—	(216,000)	720,000
	13/06/2014	0.952	01/07/2016 - 30/06/2018	936,000	—	—	—	(216,000)	720,000
	13/06/2014	0.952	01/07/2017 - 30/06/2018	1,248,000	—	—	—	(288,000)	960,000
	21/07/2015	1.280	01/07/2016 - 30/06/2019	540,000	—	—	—	(540,000)	—
	21/07/2015	1.280	01/07/2017 - 30/06/2019	540,000	—	—	—	(540,000)	—
	21/07/2015	1.280	01/07/2018 - 30/06/2019	720,000	—	—	—	(720,000)	—
				Sub-total	4,920,000	—	—	—	(2,520,000)
Other Eligible Participants (Note 2)	13/06/2014	0.952	01/07/2015 - 30/06/2018	20,100,000	—	—	—	—	20,100,000
	13/06/2014	0.952	01/07/2016 - 30/06/2018	20,100,000	—	—	—	—	20,100,000
	21/07/2015	1.280	01/07/2016 - 30/06/2019	10,000,000	—	—	—	—	10,000,000
	21/07/2015	1.280	01/07/2017 - 30/06/2019	10,000,000	—	—	—	—	10,000,000
				Sub-total	60,200,000	—	—	—	—
			Total	65,120,000	—	—	—	(2,520,000)	62,600,000

Notes:

- In respect of share subdivision becoming effective on 17 December 2014, the total number of Shares that would be eligible to be issued upon full exercise of the Share Options of the Company granted 10 December 2013 and 13 June 2014 were adjusted and also with exercise price of HK\$1.752 and HK\$3.806 was adjusted to HK\$0.438 and HK\$0.952 per Share respectively.
- Other Eligible Participants include certain business partners and consultants of the Group.



GENERAL INFORMATION

Save as disclosed above, as at 31 December 2017, none of the Directors and chief executive of the Company had or was deemed to have any interests or short positions in any Shares, debentures or underlying Shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) that are required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and 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 into the register referred to therein or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURE

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 2017.

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

As at 31 December 2017, according to the register kept by the Company pursuant to section 336 of SFO, and so far as is known to any Directors or chief executive of the Company, the following persons (other than the Directors 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 were as follow:

GENERAL INFORMATION

Long Positions in the Shares

Name of Shareholders	Capacity	Number of issued Shares Held	Approximate Percentage of the Shareholding
Best Frontier & its concert parties (Note 1)	Beneficial Owner	826,241,856	25.11%
Integrated Asset Management (Asia) Limited ("Integrated Asset") & its concert parties (Note 2)	Beneficial Owner	538,233,000	16.36%
GAM Hong Kong Limited	Investment Manager	240,950,000	7.32%
Tarascon Asia Absolute Fund (Cayman) Ltd.	Beneficial Owner	170,099,960	5.17%

Notes:

1. 818,565,856 shares are owned by Best Frontier which is owned as to 99.89% and 0.11% by Madam CHEUNG and Mr. CHAN who are spouses to each other. In addition, Madam CHEUNG and Mr. CHAN directly beneficially holds 4,656,000 and 3,020,000 Shares respectively. Madam CHEUNG is the spouse of Mr. CHAN and so both of them are deemed to have interests in the Shares.
2. 538,233,000 Shares are owned by Integrated Asset which is wholly owned by Mr. YAM Tak Cheung. A 8% coupon convertible bonds in aggregate amount of HK\$89,625,000 for a term of six months was issued to Integrated Asset Management pursuant to the Amendment Agreement dated 18 January 2017 (the "**Bonds**"). The Company received a written consent from the Integrated Asset, of which the maturity date of the Bonds would be extended for the further six months to 17 January 2018. A maximum of 249,651,810 Shares will be allotted and issued to Integrated Asset upon conversion of the Bonds in full and thereafter the shareholding of Integrated Asset will be increased to approximately 23.94% of the current issued share capital of the Company and approximately 22.25% of the enlarged issued share capital of the Company. The adjusted conversion price is HK\$0.359 per conversion share subject to adjustment.

Save as disclosed above, as at 31 December 2017, 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 Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.



GENERAL INFORMATION

CONNECTED TRANSACTION

On 18 January 2018, the Company and Integrated Asset Management, as the bondholder, entered into the Second Amendment Agreement in respect of the Proposed Amendment of the Convertible Bonds. As Integrated Asset Management is a substantial shareholder and a connected person of the Company as defined under Chapter 20 of the GEM Listing Rules, the Proposed Amendment as contemplated under the Second Amendment Agreement constitutes a connected transaction of the Company pursuant to the GEM Listing Rules. The Second Amendment Agreement, Proposed Amendments and transactions contemplated thereunder are subject to the approval by the independent shareholders of the Company at the forthcoming extraordinary general meeting, and the Stock Exchange approving the Proposed Amendments and the listing on the Stock Exchange of conversion shares arising from the Convertible Bonds.

Details of the Proposed Amendments have been disclosed in the announcement of the Company dated 18 January 2018.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 31 December 2017, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's Shares.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's Shares during the period.

COMPETING INTERESTS

As at 31 December 2017, none of Directors, the substantial shareholders nor the controlling shareholders of the Company or any of their respective close associates (as defined the GEM Listing Rules) have any interest in any business which competes or is likely to compete, directly or indirectly, with the business of the Group.

PRE-EMPTIVE RIGHTS

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

UPDATE ON DIRECTORS' INFORMATION PURSUANT TO RULE 17.50A(1) OF THE GEM LISTING RULES

In accordance with Rule 17.50A(1) of the GEM Listing Rules, the changes in information of Directors of the Company are set below:

Dr. LIU Ta-pei, retired as an independent non-executive Director of the Company on 23 November 2017 and was re-appointed as an independent non-executive Director of the Company on 11 December 2017.



GENERAL INFORMATION

Mr. TO Yan Ming Edmond, retired as an independent non-executive Director of the Company on 23 November 2017 and was re-appointed as an independent non-executive Director of the Company on 11 December 2017.

Save as disclosed above, there is no other changes in the directors' information required to be disclosed pursuant to Rule 17.50A(1) of the GEM Listing Rules.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted and complied with the applicable code of provisions as out in Appendix 15 to the GEM Listing Rules on the Stock Exchange (the “**CG Code**”) during the six months ended 31 December 2017, except for the following deviations which are summarized below:

Code provision A.4.1

Under code provision A.4.1 of the CG Code, Non-executive directors should be appointed for a specific term, subject to re-election. The Independent Non-executive Directors (the “**INEDs**”) of the Company are not appointed under a specific terms but are subject to retirement by rotation in annual general meetings of the Company at least once every three years in accordance with the Articles of Association of the Company. The Company does not believe that arbitrary term limits on Directors' services are appropriate given that Directors ought to be committed to representing the long term interests of the Company's shareholders. The retirement and re-election requirements of INEDs have given the rights to the Company's shareholders to approve continuation of INEDs' offices.

The corporate governance practices of the Company will be reviewed and updated from time to time in order to comply with Listing Rules requirements when the Board considers appropriate.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the required standards of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct (the “**Code of Conduct**”) regarding Directors' securities transaction in the Shares of the Company. Having made specific enquires, the Company has confirmed with all Directors that they have complied with the required standards as set out in the Code of Conduct during the six months ended 31 December 2017.

AUDIT COMMITTEE

The Company has established an audit committee (the “**Audit Committee**”) with written terms of reference in compliance with the GEM Listing Rules and consisted of three INEDs, namely Mr. YANG Qing Cai, Mr. TO Yan Ming Edmond and Dr. LIU Ta-pei. Mr. TO Yan Ming Edmond is the chairman of the Audit Committee.



GENERAL INFORMATION

The primary duties of the Audit Committee are to review the Company's annual report and accounts, interim 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, risk management and internal control procedures.

The Group's unaudited results for the six months ended 31 December 2017 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results has complied with applicable accounting standards and requirements and that adequate disclosures have been made.

By order of the Board
**CHINA VANGUARD YOU CHAMPION
HOLDINGS LIMITED**
眾彩羽翔股份有限公司*

CHAN Ting
Executive Director and Chief Executive Officer

Hong Kong, 12 February 2018

As at the date of this report, the Board of the Company comprises Madam CHEUNG Kwai Lan, Mr. CHAN Ting as Executive Directors, Mr. CHAN Tung Mei as Non-executive Director and Mr. YANG Qing Cai, Mr. TO Yan Ming Edmond and Dr. LIU Ta-pei as Independent Non-executive Directors.

* For identification purposes only