

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK 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 Stock 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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

*This report, for which the directors (the “**Directors**”) of China Vanguard Group Limited (the “**Company**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of Stock Exchange (the “**GEM Listing Rules**”) 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.*



INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

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 2016 (“**Period 2016**”), together with the selected comparative unaudited figures for the corresponding period in 2015 (“**Period 2015**”), are as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months and six months ended 31 December 2016

	Notes	(Unaudited) Three months ended 31 December		(Unaudited) Six months ended 31 December	
		2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Revenue	3	7,145	3,855	15,333	21,162
Costs of sales		(1,237)	(1,188)	(2,344)	(2,209)
Gross profit		5,908	2,667	12,989	18,953
Other income	3	826	2,759	1,204	4,200
Selling and distribution expenses		(2,227)	(3,288)	(3,874)	(4,809)
Administrative and operating expenses		(26,045)	(20,067)	(49,873)	(42,609)
Operating loss		(21,538)	(17,929)	(39,554)	(24,265)
Finance costs	4	(3,277)	(2,973)	(6,561)	(5,864)
Share of results of joint ventures		(533)	(304)	(541)	(645)
Loss before tax	5	(25,348)	(21,206)	(46,656)	(30,774)
Income tax credit	6	1,273	589	1,677	1,644
Loss for the period		(24,075)	(20,617)	(44,979)	(29,130)
Loss for the period attributable to:					
Equity holders of the Company		(22,361)	(18,205)	(41,495)	(25,846)
Non-controlling interests		(1,714)	(2,412)	(3,484)	(3,284)
		(24,075)	(20,617)	(44,979)	(29,130)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

Notes	(Unaudited) Three months ended 31 December		(Unaudited) Six months ended 31 December	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 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	(3,302)	(4,287)	(4,020)	(8,553)
Total comprehensive loss for the period	(27,377)	(24,904)	(48,999)	(37,683)
Total comprehensive loss for the period attributable to:				
Equity holders of the Company	(25,193)	(22,315)	(45,006)	(35,171)
Non-controlling interests	(2,184)	(2,589)	(3,993)	(2,512)
	(27,377)	(24,904)	(48,999)	(37,683)
Loss per share attributable to equity holders of the Company				
Basic	(HK0.69 cent)	(HK0.57 cent)	(HK1.29 cents)	(HK0.81 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 2016

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	(Unaudited) 31 December 2016 HK\$'000	(Audited) 30 June 2016 HK\$'000
Non-current assets			
Property, plant and equipment	8	13,781	16,070
Goodwill		99,288	99,288
Intangible assets		12,280	14,674
Interests in joint ventures		14,281	15,110
		139,630	145,142
Current assets			
Inventories		5,798	5,059
Trade and other receivables and prepayments	9	65,128	76,111
Bank balances and cash		13,910	32,999
		84,836	114,169
Current liabilities			
Trade payables, accruals and other payables	10	17,585	18,797
Amount due to directors		8,119	732
Obligation under finance leases	11	185	—
Convertible bonds	12	89,084	83,434
Deferred tax liabilities		89	1,746
Tax liabilities		4,433	5,121
		119,495	109,830
Net current (liabilities)/assets		(34,659)	4,339
Total assets less current liabilities		104,971	149,481
Non-current liabilities			
Obligation under finance leases	11	439	—
		439	—
Net assets		104,532	149,481
Capital and reserves			
Share capital	13	40,338	40,338
Reserves		51,559	96,003
Equity attributable to equity holders of the Company		91,897	136,341
Non-controlling interests		12,635	13,140
Total equity		104,532	149,481

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 2016

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

For the six months ended 31 December 2015

	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 2015 (audited)	40,097	2,430,724	1,484	35,572	10,961	17,322	24,184	(1)	10,184	(2,225,018)	345,509	12,442	357,951
Loss for the period	—	—	—	—	—	—	—	—	—	(25,846)	(25,846)	(3,284)	(29,130)
Exchange differences arising on translation of financial statements of overseas operations	—	—	—	—	—	(9,325)	—	—	—	—	(9,325)	772	(8,553)
Total comprehensive loss for the period	—	—	—	—	—	(9,325)	—	—	—	(25,846)	(35,171)	(2,512)	(37,683)
Recognition of equity-settled share-based payments	—	—	—	—	2,858	—	—	—	—	—	2,858	—	2,858
Share options lapsed	—	—	—	—	(1,424)	—	—	—	—	1,424	—	—	—
Share issued upon exercise of share options	35	1,755	—	—	(476)	—	—	—	—	—	1,314	—	1,314
At 31 December 2015 (unaudited)	40,132	2,432,479	1,484	35,572	11,919	7,997	24,184	(1)	10,184	(2,249,440)	314,510	9,930	324,440

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 2016

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2016

	(Unaudited)	
	Six months ended	
	31 December	
	2016	2015
	HK\$'000	HK\$'000
Operating activities		
Cash used in operations	(22,154)	(10,106)
Interest received	95	420
Interest paid	(7)	—
Income tax paid	(668)	—
Net cash used in operating activities	(22,734)	(9,686)
Investing activities		
Acquisition of subsidiaries	(3,542)	—
Contribution from non-controlling interests in a subsidiary	3,488	—
Additions in property, plant and equipment	(905)	(6,485)
Additions in intangible assets	(120)	—
Proceed from disposal of property, plant and equipment	141	—
Net cash used in investing activities	(938)	(6,485)
Financing activities		
Issued of shares	—	1,314
Repayment of finance lease	(24)	—
Advance from directors	7,387	—
Net cash flow generated from financing activities	7,363	1,314
Net decrease in cash and cash equivalents	(16,309)	(14,857)
Cash and cash equivalents at the beginning of the period	32,999	92,942
Effects of foreign exchange rate changes	(2,780)	(6,935)
Cash and cash equivalents at the end of the period, represented by cash and bank balances	13,910	71,150

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 2016

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited interim condensed consolidated financial statements for the six months ended 31 December 2016 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 2016 are consistent with the financial statements of the Group for the year ended 30 June 2016.

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 2016. 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 2016

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 2016 (Unaudited)

	Lottery- related services HK\$'000	Others HK\$'000	Total HK\$'000
Segment revenue:			
Sales to external customers	<u>13,647</u>	<u>1,686</u>	<u>15,333</u>
Segment results	<u>(36,007)</u>	<u>(246)</u>	<u>(36,253)</u>
Unallocated income			175
Unallocated expenses			(3,476)
Share of results of joint ventures			(541)
Finance costs			<u>(6,561)</u>
Loss before tax			(46,656)
Income tax credit			<u>1,677</u>
Loss for the period			<u>(44,979)</u>
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	<u>4,247</u>	<u>256</u>	<u>4,503</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2016

Six months ended 31 December 2015 (Unaudited)

	Lottery- related services HK\$'000	Others HK\$'000	Total HK\$'000
Segment revenue:			
Sales to external customers	21,162	—	21,162
Segment results	(4,748)	(64)	(4,812)
Unallocated income			3,038
Unallocated expenses			(22,491)
Share of results of joint ventures			(646)
Finance costs			(5,863)
Loss before tax			(30,774)
Income tax credit			1,644
Loss for the period			(29,130)
Amounts included in the measure of segment profit or loss or segment assets:			
Additions to property, plant and equipment	5,765	—	5,765
Depreciation and amortization	1,569	18	1,587



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2016

(b) Segment assets and liabilities

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

As at 31 December 2016 (Unaudited)

	Lottery- related services HK\$'000	Others HK\$'000	Total HK\$'000
Assets			
Segment assets	197,275	2,155	199,430
Unallocated assets			25,036
Total assets			224,466
Liabilities			
Segment liabilities	27,666	601	28,267
Unallocated liabilities			2,583
Convertible bonds			89,084
Total liabilities			119,934

As at 30 June 2016 (Audited)

	Lottery- related services HK\$'000	Others HK\$'000	Total HK\$'000
Assets			
Segment assets	228,750	2,399	231,149
Unallocated assets			28,162
Total assets			259,311
Liabilities			
Segment liabilities	17,932	583	18,515
Unallocated liabilities			7,881
Convertible bonds			83,434
Total liabilities			109,830

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2016

3. REVENUE AND OTHER INCOME

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

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	
	2016 HK\$'000	2015 HK\$'000
Revenue		
Provision of lottery-related services	13,647	21,162
Others	1,686	—
	15,333	21,162
Other income		
Interest income	43	420
Exchange gain, net	—	3,290
Others	1,161	490
	1,204	4,200

4. FINANCE COSTS

	(Unaudited) Six months ended 31 December	
	2016 HK\$'000	2015 HK\$'000
Interest on:		
— Convertible bonds	6,554	5,864
— Finance lease payment	7	—
	6,561	5,864



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2016

5. LOSS BEFORE TAX

	(Unaudited) Six months ended 31 December	
	2016 HK\$'000	2015 HK\$'000
Loss before tax has been arrived at after charging/(crediting):		
Cost of inventories sold	2,344	2,209
Equity-settled share-based payments	562	2,858
Depreciation of property, plant and equipment	2,692	1,669
Amortization of intangible assets	1,811	50
Exchange losses/(gain), net	1,749	(3,290)

6. INCOME TAX CREDIT

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

	(Unaudited) Six months ended 31 December	
	2016 HK\$'000	2015 HK\$'000
Over provision in the prior periods		
— Hong Kong profits tax	20	—
— Other jurisdiction	—	975
	20	975
Deferred tax	1,657	669
Income tax credit for the period	1,677	1,644

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 2016 (three months and six months ended 31 December 2015: 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 2016

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	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Loss for the period attributable to the equity holders of the Company	(22,361)	(18,205)	(41,495)	(25,846)

Number of shares

	(Unaudited) Three months ended 31 December		(Unaudited) Six months ended 31 December	
	2016 '000	2015 '000	2016 '000	2015 '000
Weighted average number of ordinary shares for the purposes of basic loss per share	3,227,065	3,210,328	3,227,065	3,209,893
Weighted average number of ordinary shares for the purposes of diluted loss per share	3,227,065	3,551,242	3,227,065	3,547,371

For the three months and six months ended 31 December 2016, outstanding share options and convertible bonds of the Company are anti-dilutive (Three months and six months ended 31 December 2015: anti-dilutive) since their exercise or conversion would result in a decrease in loss per share (Three months and six months ended 31 December 2015: decrease in loss per share).



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2016

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 2016, net of accumulated depreciation (audited)	918	2,531	362	3,114	2,069	7,076	16,070
Additions	—	82	—	401	820	251	1,554
Depreciation provided for the period	(20)	(436)	(156)	(498)	(292)	(1,290)	(2,692)
Elimination on disposals	—	(172)	—	(15)	(304)	(123)	(614)
Exchange realignment	(39)	(95)	(12)	(95)	(37)	(259)	(537)
At 31 December 2016, net of accumulated depreciation (unaudited)	859	1,910	194	2,907	2,256	5,655	13,781

9. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	(Unaudited) 31 December 2016 HK\$'000	(Audited) 30 June 2016 HK\$'000
Trade receivables	77,847	78,714
Other receivables and prepayments	45,378	43,936
	123,225	122,650
Less: Allowances for doubtful receivables	(58,097)	(46,539)
	65,128	76,111

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 2016 HK\$'000	(Audited) 30 June 2016 HK\$'000
0 to 30 days	4,823	3,077
31 to 60 days	1,620	13,788
61 to 180 days	6,890	13,164
181 to 365 days	20,100	34,918
Over 1 year	44,414	13,767
	77,847	78,714

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2016

10. TRADE PAYABLES, ACCRUALS AND OTHER PAYABLES

	(Unaudited) 31 December 2016 HK\$'000	(Audited) 30 June 2016 HK\$'000
Trade payables	131	136
Accruals and other payables	17,454	18,661
	17,585	18,797

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 2016 HK\$'000	(Audited) 30 June 2016 HK\$'000
0-30 days	—	—
31-120 days	—	—
121-180 days	—	—
181-365 days	—	—
Over 1 year	131	136
	131	136



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2016

11. OBLIGATION UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	(Unaudited) At 31 December 2016 HK\$'000	(Audited) At 30 June 2016 HK\$'000	(Unaudited) At 31 December 2016 HK\$'000	(Audited) At 30 June 2016 HK\$'000
Within one year	202	—	185	—
In the second to fifth year inclusive	455	—	439	—
Less: future finance charges	657 (33)	— —		
Present value of lease obligation	624	—	624	—
Less: amount due within one year shown under current liabilities			(185)	—
Amount due after one year			439	—

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 2016

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.

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

	(Unaudited) 31 December 2016 HK\$'000	(Audited) 30 June 2016 HK\$'000
Nominal value of the Bonds issued	89,625	89,625
Equity component	(28,963)	(28,963)
Liability component at the issuance date	60,662	60,662
Imputed finance costs	33,716	27,162
Interest paid and payable	(5,294)	(4,390)
Carrying amount	89,084	83,434

13. SHARE CAPITAL

	Number of shares '000	Amount HK\$'000
Authorised:		
At 1 July 2016 and 31 December 2016, ordinary shares of HK\$0.0125 each (unaudited)	16,000,000	200,000
Issued and fully paid:		
At 1 July 2016 and 31 December 2016, ordinary shares of HK\$0.0125 each (unaudited)	3,227,065	40,338



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2016

14. OPERATING LEASE COMMITMENTS

The Group as lessee

At 31 December 2016, 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 2016 HK\$'000	(Audited) 30 June 2016 HK\$'000
Within one year	7,373	7,367
In the second to fifth year inclusive	6,578	8,903
	13,951	16,270

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 2016, 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 2016 HK\$'000	(Audited) 30 June 2016 HK\$'000
Within one year	—	19
In the second to fifth year inclusive	—	—
	—	19

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2016

15. CAPITAL COMMITMENTS

	(Unaudited) 31 December 2016 HK\$'000	(Audited) 30 June 2016 HK\$'000
Capital expenditure in respect of addition equity interest in subsidiaries	36,842	38,505

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 2016 was as follows:

	(Unaudited) Three months ended 31 December		(Unaudited) Six months ended 31 December	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Short-term benefits	4,464	5,010	8,813	10,052
Post-employment benefits	24	36	51	72
	4,488	5,046	8,864	10,124

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 2016, amounts due to directors of approximately HK\$8,119,000 (30 June 2016: approximately HK\$732,000) are unsecured, interest free and have no fixed repayment term.

As at 31 December 2016, amounts due from related companies of approximately HK\$749,000 (30 June 2016: approximately HK\$351,000). The amounts are unsecured, interest free and have no fixed repayment terms.

As at 31 December 2016, amounts due from subsidiaries of a joint venture of approximately HK\$949,000 (30 June 2016: approximately HK\$1,117,000). 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 2016

17. COMPARATIVE AMOUNTS

Certain amounts in the condensed consolidated financial statements for the period ended 31 December 2015 have been reclassified to be consistent with the current period presentation. These reclassification have no effect on the previously reported loss for the prior period.

18. EVENTS AFTER THE REPORTING PERIOD

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; (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.

Upon full conversion of the Bonds at the amended conversion price of HK\$0.359 per ordinary share of the Company, a maximum total number of 249,651,810 shares would be issued by the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

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

For Period 2016, the Group recorded unaudited consolidated revenue of HK\$15.3 million, decreased by 27.5% against Period 2015 of HK\$21.2 million. Revenue decreased as the result of a decline in sales of lottery-related business. Gross profit ratio decreased to about 84.7% as compared with 89.6% for Period 2015.

For Period 2016, the Group recorded a net loss attributable to the equity holders of HK\$41.5 million, increased by 60.5% from HK\$25.8 million for Period 2015. Loss attributable to equity holders was HK\$22.4 million from the second quarter of Period 2016, increased by 22.8% from HK\$18.2 million for Period 2015. Selling and distribution expenses and administrative expenses in Period 2016 amounted to HK\$53.7 million, increased 13.3% as compared to HK\$47.4 million in Period 2015.

BUSINESS REVIEW

During the review period, the Group has engaged in providing lottery transaction system, lottery Point-of-Sale (“**POS**”) terminals, and self-service lottery operations (“**Original Lottery Business**”) in twenty-two provinces and municipalities across the People’s Republic of China (the “**PRC**”) and has started to develop our proprietary interactive marketing solution (the “**Interactive Marketing Solution**”). The Interactive Marketing Solution is internationally recognized and has won a gold award for “Technology for Dissemination System of Public Information and Advertising” at the 44th International Exhibition of Inventions of Geneva.

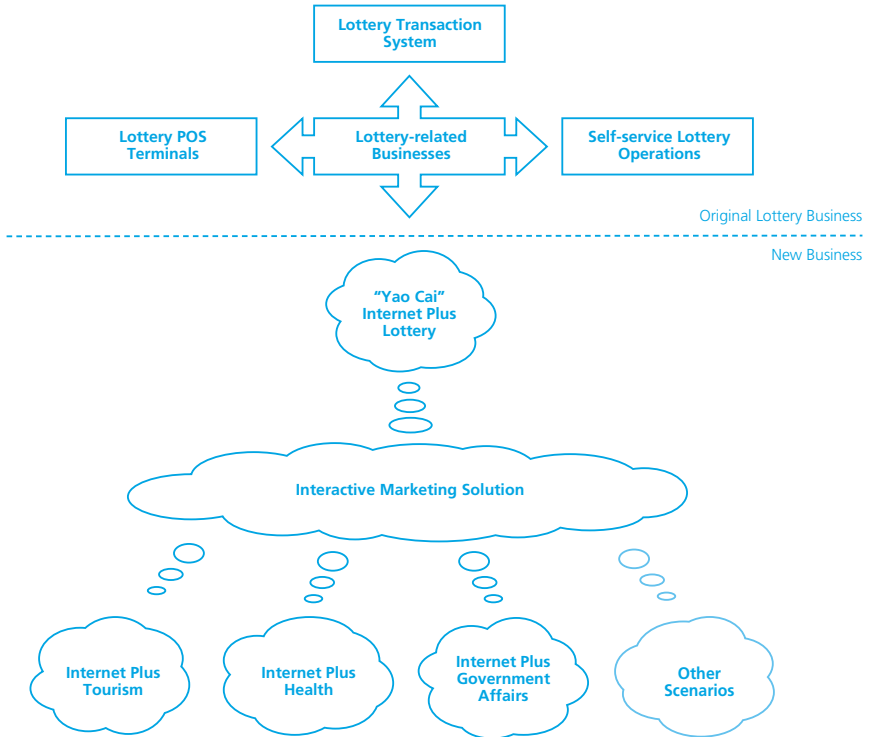
Since the Group observes that the lottery industry desires an effective marketing solution to expand consumer base, while at the same time the PRC government proposes the concept of “Internet Plus” in recent years, therefore the Group has developed a marketing solution named “Yao Cai”. “Yao Cai” is a type of the Interactive Marketing Solution tailored to the lottery industry. The Interactive Marketing Solution can integrate online channels with various lottery offline channels to realize an effective interactive marketing.

During the review period, the Group has successfully won an electronic poster procurement tender in provision of LED display with “Yao Cai” for Hainan Sports Lottery Administration Center and further expanded “Yao Cai” business to Hainan province. Together with Hainan province, the Group has provided “Yao Cai” to lottery centers in four provinces/cities of the PRC.

Based on accumulated experience and resources on “Internet Plus Lottery”, the Group has further developed and applied the Interactive Marketing Solution to various scenarios by our own resources or through cooperation with different business partners. We have expanded our new business to “Internet Plus Tourism”, “Internet Plus Health”, and “Internet Plus Government Affairs”, respectively. Please see the picture below:



MANAGEMENT DISCUSSION AND ANALYSIS



“Internet Plus Tourism”: On 5 December 2016, the Group entered into a letter of intent with You Champion International Industrial Limited under which both parties expressed the intention to form a new joint venture company (the **“JV Company”**) to operate in the Kingdom of Tonga. The JV Company will utilize the Interactive Marketing Solution (1) to promote Tonga tourism and airlines in Tonga to international and PRC tourists; and (2) to provide the membership management system with precision marketing features for airlines in Tonga. The JV Company will also develop tourism and aviation-related businesses in Tonga, as well as assist airlines in Tonga to promote their international routes. It will be the first time for the Group to apply the Interactive Marketing Solution to “Internet Plus Tourism” and bring the Interactive Marketing Solution into the global stage.

MANAGEMENT DISCUSSION AND ANALYSIS

“Internet Plus Health”: On 26 December 2016, the Group entered into a memorandum of understanding with Sinopharm (Yanbian) Ecommerce Co., Ltd. (“**Sinopharm Ecommerce**”), IQARK Supply Chain Co., Ltd. (“**IQARK**”) and United Enterprises CBT Cultural Industrial Co., Ltd. (“**United Enterprises**”) to establish a new joint venture company (the “**JV Company**”). The purpose is to build a nationwide “Internet Plus Health” online-to-offline sales platform in the PRC. Through respective strengths of all parties, the JV Company will leverage on (1) the Interactive Marketing Solution and the Group’s lottery industry-related resources to expand the distribution networks throughout the PRC; (2) Sinopharm Ecommerce and United Enterprises’ abilities to ensure stable supply of non-pharmaceutical products with quality assurance; and (3) IQARK’s solid experience on operation of offline distribution channels and logistics; to share the resources from all parties more effectively and maximize the synergy effects to the JV Company. It will be the first time for the Group to apply the Interactive Marketing Solution to “Internet Plus Health”.

“Internet Plus Government Affairs”: Prior to the date of this report, the Group has successfully won a tender in the provision of new media services for Shenzhen Traffic Police (“**SZTP**”). These new media services are provided on the basis of the features of the Interactive Marketing Solution. Through this cooperation with SZTP, the Interactive Marketing Solution will be extended to the government affairs and is expected to be gradually expanded throughout the PRC.

OUTLOOK AND STRATEGIES

In the future, the Group will continue to strive for “Yao Cai” contracts with more provincial lottery centers to provide “Yao Cai” solutions to more lottery shops and to enhance the market dominance of “Internet Plus Lottery” for the Group.

The “Internet Plus” business has a great potential for development in the PRC. The Group will continue to utilize the accumulated experience and resources to create more business opportunities for “Internet Plus Health”, “Internet Plus Tourism”, and “Internet Plus Government Affairs”. At the same time, the Group will further apply the relevant solution to additional scenarios, and will cooperate with various government departments and commercial organizations to generate new business opportunities and revenue streams for the Group.

We expect that the Original Lottery Business for the Group will remain stable except for the self service lottery. The self-service lottery is still a comparatively new type of distribution channel in the lottery industry in the PRC. We are confident that the Group would be the first one to be benefited when the self-service related lottery policy is more clear. Therefore, we still believe that there are many opportunities of self-service lottery business in long run. The Group will continue to prepare and equip ourselves when we are waiting for reactivation of this business segment.

DIVIDEND

The Board does not recommend the payment of dividend for the six months ended 31 December 2016 (six months ended 31 December 2015: Nil).



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2016, shareholders' fund amounted to HK\$104.5 million (30 June 2016: HK\$149.5 million). Current assets amounted to HK\$84.8 million (30 June 2016: HK\$114.2 million), mainly comprising of trade and other receivables and prepayments, bank balances and cash. Current liabilities amounted to HK\$119.5 million (30 June 2016: HK\$109.8 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\$13.9 million (30 June 2016: HK\$33 million). Net asset value per share of the Group was HK\$0.03 (30 June 2016: HK\$0.05).

As at 31 December 2016, the gearing ratio of the Group was 85.8% (30 June 2016: 55.8%) on the basis of the Group's total interest-bearing borrowings divided by total equity.

SHARE CAPITAL

As at 31 December 2016, the total number of issued share of the Company was 3,227,065,068 ordinary shares of HK\$0.0125 each (the "**Share(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 "**Convertible Bonds**"). A maximum number of 37,500,000 shares would be issued by the Company upon full conversion of the Convertible Bonds at the conversion price of HK\$2.390 per share into fully-paid ordinary shares of the Company. As the Company completed its 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. Save for the adjustment, all other terms and conditions of the Convertible Bonds shall remain unchanged. The Convertible Bonds shall mature on 17 January 2017.

As at 31 December 2016, no conversions have been made for the Convertible Bonds issued by holders of the Convertible Bonds or redeemed by the Company.

CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

The Company had no contingent liabilities as at 31 December 2016 (30 June 2016: Nil).

No assets of the Group was pledged as securities to any third parties as at 31 December 2016 (30 June 2016: Nil).

COMMITMENTS

The Group had capital commitments of HK\$36.8 million and operating lease commitments as lessee of HK\$14.0 million from operations as at 31 December 2016 (30 June 2016: capital commitments of HK\$38.5 million and operating lease commitments of HK\$16.3 million respectively).

MANAGEMENT DISCUSSION AND ANALYSIS

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 2016, the Group had 34 and 188 (30 June 2016: 36 and 220) 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.

EVENT AFTER THE REPORTING PERIOD

Proposed Amendments to the Terms of the Convertible Bonds

On 18 January 2017, the Company entered into an amendment agreement (the "**Amendment Agreement**") with Integrated Asset Management (Asia) Limited ("**Integrated Asset Management**") as the bondholder, pursuant to which both parties agreed to amend some principal terms of the Convertible Bonds maturing on 17 January 2017, where (i) the conversion price shall be amended to HK\$0.359 per Share; (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 (the "**Proposed Amendments**"). Upon full conversion of the Bonds at the adjusted conversion price of HK\$0.359 per Share, a maximum total number of 249,651,810 Shares would be issued by the Company.

The 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 2016, the interests and short positions of the Directors and chief executive 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 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 of Shareholding
		Interest in Controlled Corporation	Personal Interest	Family Interest	Total Interest	
Madam CHEUNG Kwai Lan ("Madam CHEUNG") (Note 1 & 2)	The Company	978,565,856	1,656,000	260,000	980,481,856	30.38%
Mr. CHAN Tung Mei ("Mr. CHAN") (Notes 1 & 3)	The Company	—	260,000	980,221,856	980,481,856	30.38%
Madam CHEUNG	Best Frontier Investments Limited ("Best Frontier") (Note 1)	—	909	1	910	—
Mr. CHAN	Best Frontier	—	1	909	910	—
Mr. TO Yan Ming Edmond	The Company	—	800,000	—	800,000	0.02%
Mr. YANG Qing Cai (Note 4)	The Company	—	475,000	—	475,000	0.01%

Notes:

1. 978,565,856 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 1,656,000 Shares and 260,000 Shares respectively. Accordingly, Madam CHEUNG is the spouse of Mr. CHAN and so both of them are deemed to be interested in the Shares.

GENERAL INFORMATION

2. The personal interests of Madam CHEUNG represent the interest in 1,656,000 Shares and interest in 3,000,000 underlying Shares in respect of the share options granted by the Company, the details of which are stated in the following section “Share Options”.
3. The personal interests of Mr. CHAN represent the interest in 260,000 Shares and interest in 2,760,000 underlying Shares in respect of the share options granted by the Company, the details of which are stated in the following section “Share Options”.
4. The personal interests of Mr. YANG Qing Cai represent the interest in 475,000 Shares and interest in 1,525,000 underlying Shares in respect of the share options granted by the Company, the details of which are stated in the following section “Share Options”.

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 2016	
				As at 1 July 2016	Granted	Exercised	Cancelled	Lapsed		
Directors										
Madam CHEUNG Kwai Lan	10/12/2013	0.438	01/04/2014 - 31/03/2017	900,000	—	—	—	—	900,000	
	10/12/2013	0.438	01/01/2015 - 31/03/2017	900,000	—	—	—	—	900,000	
	10/12/2013	0.438	01/01/2016 - 31/03/2017	1,200,000	—	—	—	—	1,200,000	
Mr. CHAN Ting	10/12/2013	0.438	01/04/2014 - 31/03/2017	900,000	—	—	—	—	900,000	
	10/12/2013	0.438	01/01/2015 - 31/03/2017	900,000	—	—	—	—	900,000	
	10/12/2013	0.438	01/01/2016 - 31/03/2017	1,200,000	—	—	—	—	1,200,000	
Mr. CHAN Tung Mei	10/12/2013	0.438	01/04/2014 - 31/03/2017	660,000	—	—	—	—	660,000	
	10/12/2013	0.438	01/01/2015 - 31/03/2017	900,000	—	—	—	—	900,000	
	10/12/2013	0.438	01/01/2016 - 31/03/2017	1,200,000	—	—	—	—	1,200,000	
Mr. ZHANG Xiu Fu	10/12/2013	0.438	01/04/2014 - 31/03/2017	600,000	—	—	—	—	600,000	
	10/12/2013	0.438	01/01/2015 - 31/03/2017	600,000	—	—	—	—	600,000	
	10/12/2013	0.438	01/01/2016 - 31/03/2017	800,000	—	—	—	—	800,000	
Mr. YANG Qing Cai	10/12/2013	0.438	01/04/2014 - 31/03/2017	125,000	—	—	—	—	125,000	
	10/12/2013	0.438	01/01/2015 - 31/03/2017	600,000	—	—	—	—	600,000	
	10/12/2013	0.438	01/01/2016 - 31/03/2017	800,000	—	—	—	—	800,000	
			Sub-total	12,285,000	—	—	—	—	12,285,000	
Employees										
	10/12/2013	0.438	01/04/2014 - 31/03/2017	818,000	—	—	—	(276,000)	542,000	
	10/12/2013	0.438	01/01/2015 - 31/03/2017	2,554,000	—	—	—	(276,000)	2,278,000	
	10/12/2013	0.438	01/01/2016 - 31/03/2017	9,308,000	—	—	—	(1,228,000)	8,080,000	
	13/06/2014	0.952	01/07/2015 - 30/06/2018	4,044,000	—	—	—	(1,944,000)	2,100,000	
	13/06/2014	0.952	01/07/2016 - 30/06/2018	4,044,000	—	—	—	(1,944,000)	2,100,000	
	13/06/2014	0.952	01/07/2017 - 30/06/2018	5,392,000	—	—	—	(2,592,000)	2,800,000	
	21/07/2015	1.280	01/07/2016 - 30/06/2019	1,266,000	—	—	—	(456,000)	810,000	
	21/07/2015	1.280	01/07/2017 - 30/06/2019	1,266,000	—	—	—	(456,000)	810,000	
	21/07/2015	1.280	01/07/2018 - 30/06/2019	1,688,000	—	—	—	(608,000)	1,080,000	
			Sub-total	30,380,000	—	—	—	(9,780,000)	20,600,000	

GENERAL INFORMATION

Name/Category of Participants	Grant Date	Exercise Price (Note 1)	Exercisable Period	Number of Share Options					As at 31 December 2016	
				As at 1 July 2016	Granted	Exercised	Cancelled	Lapsed		
Other Eligible Participants (Note 2)	10/12/2013	0.438	01/04/2014 - 31/03/2017	272,000	—	—	—	—	272,000	
	10/12/2013	0.438	01/01/2015 - 31/03/2017	276,000	—	—	—	—	276,000	
	10/12/2013	0.438	01/01/2016 - 31/03/2017	592,000	—	—	—	—	592,000	
	10/12/2013	0.438	01/04/2014 - 31/03/2017	10,760,000	—	—	—	—	10,760,000	
	10/12/2013	0.438	01/04/2015 - 31/03/2017	10,800,000	—	—	—	—	10,800,000	
	10/12/2013	0.438	01/07/2014 - 31/03/2017	46,000,000	—	—	—	—	46,000,000	
	10/12/2013	0.438	01/07/2015 - 31/03/2017	48,155,000	—	—	—	—	48,155,000	
	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	177,055,000	—	—	—	—	177,055,000
				Total	219,720,000	—	—	—	(9,780,000)	209,940,000

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.

Save as disclosed above, as at 31 December 2016, 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.



GENERAL INFORMATION

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 2016.

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

As at 31 December 2016, 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:

Long Positions in the Shares

<u>Name of Shareholders</u>	<u>Capacity</u>	<u>Number of Issued Shares Held</u>	<u>Approximate Percentage of the Shareholding</u>
Best Frontier & its concert parties <i>(Note 1)</i>	Beneficial Owner	980,481,856	30.38%
Integrated Asset Management & its concert parties <i>(Note 2)</i>	Beneficial Owner	472,723,000	14.65%
GAM Hong Kong Limited	Investment Manager	240,950,000	7.47%
Tarascon Asia Absolute Fund (Cayman) Ltd.	Beneficial Owner	168,225,000	5.21%

Notes:

1. 978,565,856 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 1,656,000 and 260,000 Shares respectively. Madam CHEUNG is the spouse of Mr. CHAN and so both of them are deemed to have interests in the Shares.

GENERAL INFORMATION

- 472,723,000 Shares are owned by Integrated Asset Management which is wholly owned by Mr. YAM Tak Cheung. A 2% coupon convertible bonds in aggregate amount of HK\$89,625,000 for a term of three years was issued to Integrated Asset Management pursuant to the subscription agreement dated 13 January 2014. A maximum of 150,000,000 Shares will be allotted and issued to Integrated Asset Management upon conversion of the Bonds in full and thereafter the shareholding of Integrated Asset Management will be increased to approximately 19.30% of the current issued share capital of the Company and approximately 18.44% of the enlarged issued share capital of the Company. The initial conversion price is HK\$0.598 per conversion share subject to adjustment.

Save as disclosed above, as at 31 December 2016, 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.

CONNECTED TRANSACTION

On 18 January 2017, the Company and Integrated Asset Management, as the bondholder, entered into the 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 Amendment Agreement constitutes a connected transaction of the Company pursuant to the GEM Listing Rules. The 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 2017.

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

During the six months ended 31 December 2016, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's Shares.

COMPETING INTERESTS

As at 31 December 2016, none of Directors, the substantial shareholders nor the controlling shareholder 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 (the "**Articles of Association**") or the laws of the Cayman Islands which would oblige the Company to offer new Shares on a pro rata basis to existing Shareholders.



GENERAL INFORMATION

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 during the period are set below:

Mr. TO Yan Ming Edmond has been appointed as an independent non-executive director of the following companies:

<u>Company Name</u>	<u>Stock Code</u>	<u>Effective Date</u>
Tianli Holdings Group Limited	0117	14 July 2016
Birmingham International Holdings Limited	2309	15 October 2016
EPI (Holdings) Limited	0689	18 October 2016
SH Group (Holdings) Limited	1637	6 December 2016

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 2016, 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 "**INED(s)**") 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. 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.

Code provision A.6.7

Under code provision A.6.7 of the CG Code, independent non-executive directors and non-executive director should attend general meetings and develop a balanced understanding of the views of shareholders. An Executive Director and two INEDs, were unable to attend the annual general meeting of the Company held 23 November 2016 due to the health reason and other business commitments.

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.

GENERAL INFORMATION

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 2016.

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. 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, 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 systems.

The Group’s unaudited results for the six months ended 31 December 2016 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 GROUP LIMITED
 眾彩科技股份有限公司*

CHAN Ting
Executive Director and Chief Executive Officer

Hong Kong, 10 February 2017

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 Directors, and Mr. ZHANG Xiu Fu, Mr. YANG Qing Cai and Mr. TO Yan Ming Edmond as Independent Non-executive Directors.

* For identification purposes only