



眾彩科技股份有限公司*
CHINA VANGUARD GROUP LTD.

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

FIRST QUARTERLY RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2012

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and the Exchange take no responsibility for the contents of this announcement, 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 announcement.

This announcement, for which the board of directors of China Vanguard Group Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Exchange for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this announcement 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 announcement misleading.

RESULTS

The board (the “Board”) of directors (the “Directors”) of China Vanguard Group Limited (“the Company”) presents the unaudited consolidated results of the Company and its subsidiaries (together the “Group”) for the three months ended 30 September 2012 (“Period 2012”), together with the comparative unaudited figures for the corresponding period in 2011 (“Period 2011”), as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		(Unaudited)	
		Three months ended	
		30 September	
		2012	2011
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	2	20,879	28,350
Costs of sales		(8,072)	(9,826)
Gross profit		12,807	18,524
Other revenue		639	6,864
Selling and distribution costs		(2,589)	(3,845)
Administrative expenses		(20,507)	(18,696)
Finance costs		(3,581)	(624)
(LOSS)/PROFIT BEFORE TAXATION		(13,231)	2,223
Income tax expenses	3	(74)	(501)
(LOSS)/PROFIT FOR THE PERIOD		(13,305)	1,722
OTHER COMPREHENSIVE INCOME			
Exchange difference on translation of financial statements of foreign operations		2,013	4,830
Changes of interests in subsidiaries		–	3,672
		2,013	8,502
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		(11,292)	10,224
(LOSS)/PROFIT ATTRIBUTABLE TO:			
Equity holders of the Company		(12,659)	1,842
Non-controlling interests		(646)	(120)
(LOSS)/PROFIT FOR THE PERIOD		(13,305)	1,722
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Equity holders of the Company		(10,688)	8,510
Non-controlling interests		(604)	1,714
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		(11,292)	10,224
(LOSS)/EARNINGS PER SHARE (HK Cents)	4		
Basic		(0.39)	0.06
Diluted		N/A	0.06

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended 30 September 2012

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited consolidated results have been prepared in accordance with accounting principles general accepted in Hong Kong which include Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). They have been prepared on the historical costs basis, except for certain financial instruments, which are measured at fair values.

The principal accounting policies used in the unaudited consolidated results are consistent with those followed in the preparation of the Group’s financial statements for the year ended 30 June 2012. The financial statements are unaudited but have been reviewed by the Audit Committee of the Company.

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

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

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

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

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

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

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

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

2. REVENUE

The principal activities of the Group are (i) provision of lottery-related services, (ii) provision of entertainment VAS services and (iii) food and catering services.

Revenue represents invoiced value of sales, net of returns, discounts allowed or sales taxes where applicable.

3. INCOME TAX EXPENSES

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits arising in Hong Kong during Period 2012 (Period 2011: Nil).

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

4. (LOSS)/EARNINGS PER SHARE (UNAUDITED)

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

(Loss)/Earnings	Three months ended	
	30 September	
	2012	2011
	HK\$'000	HK\$'000
(Loss)/Earnings for the period attributable to the equity holders of the Company	(12,659)	1,842

Number of shares	Three months ended	
	30 September	
	2012	2011
	'000	'000
Weighted average number of ordinary shares for the purposes of basic (loss)/earnings per share	3,271,894	3,243,524
Effect of dilutive potential ordinary shares:		
Warrants	–	13,987
Weighted average number of ordinary shares for the purposes of diluted earnings per share	3,271,894	3,257,511

No diluted loss per share has been presented for Period 2012 as the outstanding share options, warrants and convertible bonds of the Company are anti-dilutive since their exercise or concession would result in a decrease in loss per share.

Diluted earnings per share for the Period 2011 amounted HK0.06 cent based on the profit of HK\$1,842,000 and the denominator used is the same as those detailed above for diluted earnings per share.

5. MOVEMENT OF RESERVES (UNAUDITED)

For the period ended 30 September 2012

	Attributable to equity holders of the Company								Total HK\$'000
	Share premium HK\$'000	Capital redemption reserve HK\$'000	Employee share-based compensation reserve HK\$'000	Share option reserve HK\$'000	Translation reserve HK\$'000	Special reserve HK\$'000	Capital reserve HK\$'000	Accumulated losses HK\$'000	
At 1 July 2012	2,165,054	234	35,572	11,092	23,735	(1)	10,195	(2,227,934)	17,947
Loss for the period	-	-	-	-	-	-	-	(12,659)	(12,659)
Exchange differences arising from translation of financial statements of overseas operations	-	-	-	-	1,971	-	-	-	1,971
Total comprehensive income for the period	-	-	-	-	1,971	-	-	(12,659)	(10,688)
At 30 September 2012	2,165,054	234	35,572	11,092	25,706	(1)	10,195	(2,240,593)	7,259

For the period ended 30 September 2011

	Attributable to equity holders of the Company								Total HK\$'000
	Share premium HK\$'000	Capital redemption reserve HK\$'000	Employee share-based compensation reserve HK\$'000	Share option reserve HK\$'000	Translation reserve HK\$'000	Special reserve HK\$'000	Capital ¹ reserve HK\$'000	Accumulated losses HK\$'000	
At 1 July 2011	2,157,154	234	35,572	11,092	20,722	(1)	-	(1,120,429)	1,104,344
Profit for the period	-	-	-	-	-	-	-	1,842	1,842
Exchange differences arising from translation of financial statements of overseas operations	-	-	-	-	2,996	-	-	-	2,996
Changes of interests in subsidiaries	-	-	-	-	-	-	3,672	-	3,672
Total comprehensive income for the period	-	-	-	-	2,996	-	3,672	1,842	8,510
Share issued on exercised of warrants	6,320	-	-	-	-	-	-	-	6,320
At 30 September 2011	2,163,474	234	35,572	11,092	23,718	(1)	3,672	(1,118,587)	1,119,174

Note:

1. Capital reserve for the three months ended 30 September 2011 of approximately HK\$3,672,000 arose from the acquisition of 49% and 1% interests in Cheerfull Group Holdings Limited and Shenzhen Longjiang Fengcai IT Co. Ltd for cash consideration of HK\$27,200,000 and RMB252,100 (approximately HK\$303,000) respectively.

The capital reserve arose from the acquisition of the above non-controlling interests is calculated as follows:

	<i>HK\$'000</i>
Cash consideration paid	(27,503)
Carrying amount of non-controlling interests	31,144
Exchange difference	<u>31</u>
Capital reserve arose from the acquisition	<u><u>3,672</u></u>

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The Group is engaged in: (i) supply of software, equipment and services to the lottery industry and the establishment of traditional and non-traditional lottery outlets in China; (ii) land and property development in China; and (iii) supply of equipment and services to the entertainment industry in China.

For the three months ended 30 September 2012 (“Period 2012”) the Group recorded total revenue of HK\$20.9 million against HK\$28.4 million in the previous corresponding period (“Period 2011”), down 26.4% year-on-year. The decline in revenue was predominantly due to reduced revenue from the lottery business and a poorer than desired performance from the entertainment services operations. The goodwill for the latter was totally written off in the last financial year reflecting our lowered expectations for these operations going forward. Gross profit decreased 30.9% to HK\$12.8 million as compared with HK\$18.5 million in Period 2011. The gross profit ratio of 61.3% declined 4 ppts as compared with 65.3% in Period 2011. For Period 2012, the Group recorded a net loss attributable to the equity holders of HK\$12.7 million against a net profit attributable to the equity holders of HK\$1.8 million previously. Factoring out one-off non-recurrent income, recurrent losses attributable to the equity holders were HK\$12.7 million in Period 2012 against HK\$4.7 million in Period 2011. Selling and distribution costs and administrative expenses in Period 2012 amounted to HK\$23.1 million, marginally changed as compared to HK\$22.5 million in Period 2011.

Business Review

Despite deterioration in the reported top and bottom lines, our operations made good progress. On the lottery side, we made positive strides in Tianjin with regards implementation and rollout in this new territory as well as gaining traction in the pursuit of new lottery related contracts. On the property side, we are rapidly setting up operations to be in a position to monetize the exciting Guizhou Dalong Economic Development Zone (the “Zone”) opportunity.

Lottery Operations

The Group’s has lottery-related operations in Shenzhen, Heilongjiang, Zhejiang, Chongqing and Tianjin. The operations are involved in the provision a variety of lottery-related software, equipment and services to Welfare Lottery Centres in China as well as establishment of traditional outlets and non-traditional outlets for sale of various Welfare Lottery products.

During the period, revenues were lower due to a reduction in revenue for one of our software and equipment supply contracts. Positively, other higher point share opportunities have arisen. In March 2012, we signed a cooperation agreement with the Tianjin Welfare Lottery Issuing Centre to install our single player touch screen terminal system for high-frequency lottery game play into designated existing traditional and specialty lottery outlets and non traditional outlets such as the airport, restaurants, cafés and entertainment venues. In return, the Group is entitled a much higher point share than traditional software and equipment supply contracts. The higher point share is then shared with the venue owner. This is similar to our agreement in Chongqing with regards installing our system for lottery games in karaoke venues, but over a much broader range of outlets. In addition to focusing on and gaining traction on getting additional higher point share Tianjin-like and Chongqing-like contracts, we continued to push on expanding our traditional software and hardware supply business.

Regarding Tianjin, a major milestone was achieved with “Happy 10” coming online in mid-August paving the way for installation of our system and terminals into designated lottery venues as well as new channels such as the restaurants, cafés and karaoke and other entertainment venues. During the period, we also made progress with regards exploration of opportunities on the lottery logistics solutions side. Whilst we have completed development of our own in-house logistics solutions, we have not ruled out moving forward in this space in cooperation with a large international player.

Land and Property Development Operations

In March 2012, the Group announced an agreement to establish Guizhou Dalong China Vanguard Development Company Limited (“GDCVG”), a non-wholly owned 34% owned subsidiary. Pursuant to the agreement, GDCVG is to finance and carry out development work such as levelling, landscaping and infrastructure on up to 30km² of industrial and commercial land in the Zone in Guizhou Province in return for a share of profits on the land’s sale. A profit guarantee to GDCVG has been given by the Zone’s authorities.

During the period, the Group gained financing in order to fulfill equity contribution to the joint venture. GDCVG has been formed and is establishing its operations within the Zone, offices have been set up and more staff are being hired. GDCVG has been working diligently and closely with Zone authorities. Together they have selected several industrial and commercial areas for class 1 land development. Survey work on these blocks of land has been completed. Master layout plans have almost been completed. Such plans ensure that the nature and layout of the development of the selected blocks of land are acceptable to authorities and ensures that they are developed in an orderly manner. Such plans include the formation levels of the site and the position, widths and levels of any proposed roads, emergency accesses, footbridges and pedestrian ways, the nature, height and gross floor area of buildings. Once these plans have been finalized and approved, GDCVG will proceed on land levelling and infrastructural work.

Entertainment equipment and services operations

Our entertainment equipment side focuses predominantly on supply of song selection/ video-on-demand equipment to karaoke venues and our entertainment services side on royalty collection on behalf of copyright owners from karaoke venues. These operations performed poorer than we desired. The goodwill associated with these operations was totally written off in the last financial year reflecting our lowered expectations for these operations going forward.

FUTURE OUTLOOK AND PROSPECTS

We are optimistic about the outlook for our lottery operations. The China lottery industry is expected to continue to experience strong organic growth. We have increased the quality and range of our software, hardware and service offerings to the industry. Our software and hardware solutions range from traditional retail countertop systems for sale of computer generated tickets to single player touch screen terminal systems for high frequency lottery games. This has enhanced our competitiveness and position in the industry and has facilitated the expansion of our geographical footprint and move downstream into lottery outlets. This has also enabled us to garner new higher point share contracts such as the Tianjin and Chongqing contracts. We are pushing hard to get new contracts in all areas.

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

DIVIDEND

The Board does not recommend the payment of any dividend for the three months ended 30 September 2012 (Period 2011: Nil).

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

As at 30 September 2012, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the Rules ("GEM Listing Rules") Governing the Listing of Securities on the Growth Enterprise Market of the Exchange, to be notified to the Company and the Exchange, were as follows:

(1) Long positions in the ordinary shares of the Company or any of its associated corporations

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

Notes:

- The 1,676,457,322 shares are owned by Best Frontier which is owned as to 99.89% and 0.11% by Madam Cheung and Mr. Chan respectively, who are spouse to each other. Accordingly, Madam Cheung is deemed to be interested in the shares held by Best Frontier and Mr. Chan is deemed to be interested in all 1,676,457,322 shares by virtue of being the spouse of Madam Cheung under the SFO.

2. The 2,070,000 shares are owned by Madam Cheung who is the spouse of Mr. Chan. Accordingly, Mr. Chan is deemed to be interested in the shares under the SFO.
3. The 1 share and 909 shares of US\$1 each in Best Frontier is owned respectively by Mr. Chan and Madam Cheung who are spouse to each other. Accordingly, Madam Cheung and Mr. Chan are deemed to be interested in the shares held by each other under the SFO.

(2) Share options of the Company

The Company has adopted a share option scheme which remained valid for a period for 10 years commencing from 18 October 2002. All the outstanding share options have expired on 17 October 2012.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in the section headed “Directors’ and chief executive’s interests and short positions in shares, underlying shares and debentures of the Company or any associated corporation” above, at no time during the period was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors and chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any body corporate, and none of the directors and chief executive or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the three months ended 30 September 2012.

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

As at 30 September 2012, according to the register kept by the Company pursuant to section 336 of SFO, and so far as is known to the Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had, or was deemed or taken to have, an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital, carrying rights to vote in all circumstances at general meeting of any member of the Group:

Long positions in the shares

Name of Shareholder	Capacity	Number of shares held		Approximate percentage of shareholding
		Long position	Short position	
Best Frontier	Beneficial Owner	1,676,457,322 (Note 1)	–	51.24%

Note:

1. The 1,676,457,322 shares are owned by Best Frontier which is owned as to 99.89% and 0.11% by Madam Cheung and Mr. Chan, who are spouse to each other.

Save as disclosed above, as at 30 September 2012, the Directors or chief executive of the Company were not aware of any person (other than a Director or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, was, directly or indirectly, interest in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group.

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

During the three months ended 30 September 2012, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

COMPETITION AND CONFLICT OF INTERESTS

As at 30 September 2012, none of the Directors, the substantial shareholders or the controlling shareholder of the Company or any of their respective associates have engaged in any business that competes or may compete with the business of the Group, or have any other conflict of interests with the Group.

CORPORATE GOVERNANCE

Corporate governance practices

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

Code of conduct regarding securities transactions by Directors

The Company has adopted the code of conduct for securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the "Code of Conduct"). Having made enquiry of all Directors, the Company was not aware of any non-compliance with the required standard set out in the Code of Conduct.

Audit Committee

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

The primary duties of the audit committee are to review the Company's annual report and accounts, half year reports and quarterly reports and to provide advice and comments thereon to the Board. The audit committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures.

The Group's unaudited results for the three months ended 30 September 2012 have been reviewed by the audit committee which was of the opinion that the preparation of such results complied with applicable accounting standards and requirements and that adequate disclosures had been made.

By order of the Board
China Vanguard Group Limited
眾彩科技股份有限公司*
CHAN Ting
Director

Hong Kong, 9 November 2012

As at the date of this announcement, the board of directors of the Company comprises four executive directors, being Madam Cheung Kwai Lan, Mr. Chan Ting, Mr. Wang Yong Chun, Ms. Chan Siu Sarah, one non-executive director being Mr. Chan Tung Mei and three independent non-executive directors, being Mr. Zhang Xiu Fu, Mr. Yang Qing Cai and Mr. To Yan Ming Edmond.

This announcement will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting and on the website of the Company at www.cvg.com.hk.

* *for identification purposes only*