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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

THIRD QUARTERLY RESULTS ANNOUNCEMENT FOR THE NINE MONTHS ENDED 31 MARCH 2016

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.

*This announcement, 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 the 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 announcement misleading.*

THIRD QUARTERLY RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of China Vanguard Group Limited (the “**Company**”) announces that the unaudited consolidated results of the Company and its subsidiaries (together as the “**Group**”) for the three months and nine months ended 31 March 2016 (“**Period 2016**”), together with the 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 nine months ended 31 March 2016

	Notes	(Unaudited) Three months ended 31 March		(Unaudited) Nine months ended 31 March	
		2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Revenue	2	4,337	55,129	25,499	122,371
Costs of sales		(50)	(603)	(2,259)	(3,288)
Gross profit		4,287	54,526	23,240	119,083
Other revenue		(2,296)	446	1,904	3,450
Gain on disposal of subsidiary		30	—	30	—
Selling and distribution costs		(2,342)	(1,386)	(7,151)	(3,968)
Administrative expenses		(24,176)	(22,642)	(66,785)	(63,433)
Operating (loss) profit		(24,497)	30,944	(48,762)	55,132
Finance costs		(3,017)	(2,678)	(8,881)	(7,937)
Share of results of a joint venture		192	(200)	(453)	343
(LOSS) PROFIT BEFORE TAXATION	3	(27,322)	28,066	(58,096)	47,538
Income tax	4	343	(7,592)	1,987	(5,138)
(LOSS) PROFIT FOR THE PERIOD		(26,979)	20,474	(56,109)	42,400

	(Unaudited)		(Unaudited)	
	Three months ended		Nine months ended	
	31 March		31 March	
	2016	2015	2016	2015
Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
OTHER COMPREHENSIVE (EXPENSES) INCOME				
<i>Items that may be classified subsequently to profit or loss:</i>				
Exchange differences arising on translation of financial statements of overseas operations	1,897	(876)	(6,656)	(1,301)
TOTAL COMPREHENSIVE (EXPENSES) INCOME FOR THE PERIOD	(25,082)	19,598	(62,765)	41,099
(LOSS) PROFIT ATTRIBUTABLE TO:				
Equity holders of the Company	(24,929)	16,149	(50,775)	31,210
Non-controlling interests	(2,050)	4,325	(5,334)	11,190
(LOSS) PROFIT FOR THE PERIOD	(26,979)	20,474	(56,109)	42,400
TOTAL COMPREHENSIVE (EXPENSES) INCOME ATTRIBUTABLE TO:				
Equity holders of the Company	(23,489)	15,203	(58,660)	30,063
Non-controlling interests	(1,593)	4,395	(4,105)	11,036
TOTAL COMPREHENSIVE (EXPENSES) INCOME FOR THE PERIOD	(25,082)	19,598	(62,765)	41,099
(LOSS) EARNINGS PER SHARE				
Basic	5 (HK0.77 cent)	HK0.51 cent	(HK1.58 cents)	HK0.97 cent
Diluted	N/A	HK0.49 cent	N/A	HK0.95 cent

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 31 March 2016

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited consolidated results have been prepared in accordance with accounting principles generally accepted in Hong Kong which include Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of the GEM Listing Rules.

Except as described below, the accounting policies and methods of computation used in the unaudited consolidated results for the nine months ended 31 March 2016 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 30 June 2015.

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 2015. 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.

2. REVENUE

The principal activities of the Group are (i) provision of lottery-related services, (ii) land and property development, trading and consulting services, and (iii) 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)		(Unaudited)	
	Three months ended		Nine months ended	
	31 March		31 March	
	2016	2015	2016	2015
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Revenue				
Lottery-related services	4,337	55,129	25,499	117,691
Land and property development, trading and consulting services	—	—	—	4,666
Others	—	—	—	14
	4,337	55,129	25,499	122,371

3. (LOSS) PROFIT BEFORE TAXATION

(Loss) profit before taxation has been arrived at after charging (crediting):

	(Unaudited) Three months ended 31 March		(Unaudited) Nine months ended 31 March	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Cost of sales	50	603	2,259	3,288
Equity-settled share-based payments	716	1,526	3,574	6,713
Depreciation of property, plants and equipment	1,021	694	2,690	2,538
Interest income	(121)	(154)	(541)	(265)
Exchange loss (gain), net	2,278	(526)	(1,012)	(224)
Interest on:				
— Convertible bonds	<u>3,017</u>	<u>2,678</u>	<u>8,881</u>	<u>7,937</u>

4. INCOME TAX

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

	(Unaudited) Three months ended 31 March		(Unaudited) Nine months ended 31 March	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
The charge comprises:				
Current period				
— Hong Kong profits tax	—	4,463	—	4,463
— Other jurisdiction	—	3,425	—	5,051
	<u>—</u>	<u>7,888</u>	<u>—</u>	<u>9,514</u>
(Over) under provision in the prior periods				
— Hong Kong profits tax	—	—	—	—
— Other jurisdiction	9	—	(966)	(3,510)
	<u>9</u>	<u>—</u>	<u>(966)</u>	<u>(3,510)</u>
	9	7,888	(966)	6,004
Deferred taxation	<u>(352)</u>	<u>(296)</u>	<u>(1,021)</u>	<u>(866)</u>
Income tax (credited) charged for the period	<u>(343)</u>	<u>7,592</u>	<u>(1,987)</u>	<u>5,138</u>

No provision for Hong Kong profits tax has been made as the Group did not have any assessable profit arising in Hong Kong for the three months and nine months ended 31 March 2016.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the three months and nine months ended 31 March 2015.

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

5. (LOSS) EARNINGS PER SHARE

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

(Loss) Earnings

	(Unaudited) Three months ended 31 March		(Unaudited) Nine months ended 31 March	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
(Loss) profit for the period attributable to the equity holders of the Company	<u>(24,929)</u>	<u>16,149</u>	<u>(50,775)</u>	<u>31,210</u>

Number of shares

	(Unaudited) Three months ended 31 March		(Unaudited) Nine months ended 31 March	
	2016 '000	2015 '000	2016 '000	2015 '000
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	<u>3,220,272</u>	<u>3,197,265</u>	<u>3,213,328</u>	<u>3,209,062</u>
Weighted average number of ordinary shares for the purposes of diluted (loss) earnings per share	<u>3,457,858</u>	<u>3,319,747</u>	<u>3,442,468</u>	<u>3,301,299</u>

For the three months and nine months ended 31 March 2016, outstanding share options and convertible bonds of the Company are anti-dilutive since their exercise or conversion would result in a decrease in loss per share.

For the three months and nine months ended 31 March 2015, outstanding convertible bonds of the Company are anti-dilutive since their conversion would result in an increase in earnings per share.

6. MOVEMENT OF RESERVES

For the nine months ended 31 March 2016

	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	Convertible bonds reserve HK\$'000	Special reserve HK\$'000	Capital reserve HK\$'000	Retained profits/ (Accumulated losses) HK\$'000	
At 1 July 2015 (audited)	2,430,724	1,484	35,572	10,961	17,322	24,184	(1)	10,184	(2,225,018)	305,412
Loss for the period	—	—	—	—	—	—	—	—	(50,775)	(50,775)
Exchange differences arising from translation of financial statements of overseas operations	—	—	—	—	(7,885)	—	—	—	—	(7,885)
Total comprehensive expenses for the period	—	—	—	—	(7,885)	—	—	—	(50,775)	(58,660)
Recognition of equity- settled share-based payments	—	—	—	3,574	—	—	—	—	—	3,574
Exercise of share options	—	—	—	(3,118)	—	—	—	—	—	(3,118)
Share options lapsed	—	—	—	(1,471)	—	—	—	—	1,471	—
Share issued upon exercise of share options	10,527	—	—	—	—	—	—	—	—	10,527
At 31 March 2016 (unaudited)	<u>2,441,251</u>	<u>1,484</u>	<u>35,572</u>	<u>9,946</u>	<u>9,437</u>	<u>24,184</u>	<u>(1)</u>	<u>10,184</u>	<u>(2,274,322)</u>	<u>257,735</u>

For the nine months ended 31 March 2015

	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	Convertible bonds reserve HK\$'000	Special reserve HK\$'000	Capital reserve HK\$'000	Retained profits/ (Accumulated losses) HK\$'000	
At 1 July 2014 (audited)	2,436,474	1,181	35,572	6,202	17,201	24,184	(1)	10,184	(2,244,288)	286,709
Profit for the period	—	—	—	—	—	—	—	—	31,210	31,210
Exchange differences arising from translation of financial statements of overseas operations	—	—	—	—	(1,147)	—	—	—	—	(1,147)
Total comprehensive income for the period	—	—	—	—	(1,147)	—	—	—	31,210	30,063
Recognition of equity- settled share-based payments	—	—	—	6,713	—	—	—	—	—	6,713
Exercise of share options	—	—	—	(2,365)	—	—	—	—	—	(2,365)
Share options lapsed	—	—	—	(523)	—	—	—	—	523	—
Shares repurchased	(17,491)	303	—	—	—	—	—	—	(303)	(17,491)
Shares issued upon exercise of share options	8,187	—	—	—	—	—	—	—	—	8,187
At 31 March 2015 (unaudited)	<u>2,427,170</u>	<u>1,484</u>	<u>35,572</u>	<u>10,027</u>	<u>16,054</u>	<u>24,184</u>	<u>(1)</u>	<u>10,184</u>	<u>(2,212,858)</u>	<u>311,816</u>

7. APPROVAL OF THE UNAUDITED CONDENSED CONSOLIDATED THIRD QUARTERLY FINANCIAL STATEMENTS

The unaudited condensed consolidated third quarterly financial statements were approved and authorised for issue by the Board on 13 May 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The principal activities of the Group are (i) provision of lottery-related services; (ii) land and property development, trading and consulting services; and (iii) others.

For Period 2016, the Group recorded unaudited consolidated revenue of HK\$25.5 million, decreased by 79.2% against Period 2015 of HK\$122.4 million. The decrease in revenue was due to the significant decline in revenue from our self-service lottery business and no contribution from property related business during the period. Gross profit ratio decreased to 91.1% as compared with 97.3% for Period 2015.

For Period 2016, the Group recorded an unaudited loss attributable to the equity holders of HK\$50.8 million, compared against a net profit of HK\$31.2 million for Period 2015. Loss attributable to equity holders was HK\$24.9 million from the third quarter of Period 2016 against profit of HK\$16.1 million for Period 2015. Selling and distribution costs and administrative expenses for Period 2016 amounted to HK\$73.9 million, increased by 9.7% as compared to HK\$67.4 million for Period 2015. The increase was mainly caused by the additional costs incurred to strengthen our operation in preparing for new business needs.

Business Review

The Group has continued to leverage on its proven track record in the lottery industry to provide a comprehensive range of solutions to Sports Lottery and Welfare Lottery centres located across 21 provinces and regions in the PRC, including hardware and software, marketing promotion and distribution services, as well as downstream channel management services.

During Period 2016, the PRC government has maintained its view to internet lottery operations. On the eve of an official policy framework from the Central government that would allow the online distribution of Internet lottery, most lottery administrative offices have opted to adhere to the strictest guidelines according to the latest official commentaries and acting on a more conservative approach, that is the traditional approach through the over-the-counter paper lottery ticket distribution. Thus the Group's has voluntarily suspended part of the self-service lottery operations. Hence the Group's reported revenues has declined substantially during the period under review. Meanwhile, the Management has been closely working with the regulatory authorities in seeking for clarity in future self-service lottery business development.

While revenues from Period 2016 has been dampened by changes in the operating environment, the Group remain committed to its long term strategy to become the leading player in providing lottery related services in the PRC, the new revenue streams which is currently under development shall mitigate the shortfall in revenue in the near to medium term while ultimately bringing tectonic changes to the Group's growing business in the long haul.

During the review period the Group has made significant inroads in expanding the geographic coverage over the last couple of years via entering into numerous cooperation agreements with lottery administration centres. The Group has made two significant strategic moves that would shape the business strategies of the Group for the near to medium term future. This has set the positive tone for the Group's future development in spite of slowing down in revenue contributions from self-service lottery operations.

On 2 February 2016, the Group, through its wholly-owned subsidiary, has entered into the Cooperation Agreement with Shenzhen Sports Lottery Administration Centre for the provision of out-of-home (“OOH”) advertising and information services on LED display panels and has introduced a groundbreaking electronic coupon distribution system, Yao Cai (「搖彩」), to help promote physical lottery ticket sales throughout traditional lottery stores in Shenzhen. The innovative marketing solution represents a breakthrough in lottery industry and has enhanced service offering to customers.

Pursuant to the Cooperation Agreement, the Company has been authorized to install LED panels and provide end-to-end interactive in-store marketing technology solutions that include out-of-home (OOH) advertising and public information dissemination services via in-store LED display panels. Information disseminated will be lottery-related information from Shenzhen Sports Lottery Administration Centre, as the digitalization and mobilization

of modern business operations has created the need for a more efficient and measurable interactive electronic information system to facilitate data and information flow between Lottery Centres and various distribution channels, whereas a portion of the screen time will be allocated for revenue generating OOH advertising, and thus created a significant new business opportunity and revenue stream for the Group.

Yao Cai (「搖彩」), based on our proprietary Bluetooth beacon protocol, is China's first electronic coupon distribution and physical lottery ticket redemption systems that will also offer incentive-based mass marketing promotions, utilizing location-based, Bluetooth low energy backed Bluetooth signal via WeChat (「微信」) platform, the PRC's leading text and voice messaging communication service APP on smartphones. Through "Shake" (「微信搖一搖」) function provided by the WeChat (「微信」), the Group shall offer customers free electronic coupons while enabling third-party merchants to gather social media engagement via driving social media traffic to WeChat Official accounts (「微信公眾號」).

In April 2016, the Group has gathered two prestigious awards at the 2016 International Exhibition of Inventions of Geneva, under the patronage of the Swiss Federal Government, the State, the City of Geneva and of the World Intellectual Property Organization - WIPO.

The uniqueness of Yao Cai (「搖彩」) out-of-home advertising solution has won Gold Award for "Technology for dissemination system of public information and advertising" and won the special award from the Association "Russian House for International Scientific and Technological Cooperation". Whilst the cooperation agreement with Shenzhen Sports Lottery Administration Centre as a starting point, Yao Cai (「搖彩」) shall bring innovative out-of-home advertising and information services on LED display panels and an electronic coupon distribution and physical lottery ticket redemption services to existing lottery store customers and is expected to draw new traffic to stores. The Management is of the view that Yao Cai (「搖彩」) will enable the Group to ride on its existing coverage of 21 provinces and regions for the launch an end-to-end in-store interactive technology strategy.

Outlook and Strategies

As a leading lottery solutions provider in the PRC, the Group is committed to expanding its lottery business through comprehensive and diversified distribution channels and technology innovations. The Group's recognition from the International Exhibition of Inventions of Geneva is an apparent endorsement to the Group's commitment to establish a leading position in the lottery industry through growing our presence geographically and through innovative technologies. We will continue to improve the Group's competitiveness and services and enhance customer experience through research and development initiatives.

The Management is of the view that the voluntary suspension on part of our self-service lottery operation is temporary, and we are working closely with the relevant regulatory authorities in seeking for clarity in future self-service lottery business development. The current setback in our self-service lottery operation is believed to be offset by contributions from our new business in the near to medium term as the innovative marketing services will transform lottery consumption behavior that will be catalytic in increasing lottery sales, creating a win-win situation between third-party advertisers in marketing outreach, while providing new revenue streams for the Group. The interactive marketing services will contribute to the Group's revenue through revenue share from advertising screen time on the LED display panels.

Whilst the Group is focusing on its expertise on lottery-related operation, the Board is of the view that the new marketing services will become a substantial new business area and enable the Group to broaden its service offering and revenue streams.

Dividend

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

GENERAL INFORMATION

Purchase, Sale or Redemption of The Company's Listed Securities

During the nine months ended 31 March 2016, 17,200,000 Shares were issued to eligible persons after they had exercised their Share Option rights. Net proceeds exclusive of handling fees of HK\$7,623,550 was received.

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 March 2016, 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 the Company.

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 “**Code**”) during the nine months ended 31 March 2016, except for the following deviations which are summarized below:

Code provision A.4.1

The Non-executive Director and 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.

Code provision A.6.7

An INED were unable to attend the annual general meeting of the Company held on 23 November 2015 due to health reason.

The corporate governance practices of the Company will be reviewed and updated from time to time in order to comply with GEM 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 nine months ended 31 March 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 and internal control procedures.

The Group’s unaudited consolidated results for the nine months ended 31 March 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, 13 May 2016

As at the date of this announcement, the Board comprises Madam CHEUNG Kwai Lan, Mr. CHAN Ting as Executive Directors, Mr. CHAN Tung Mei as Non-executive Director and Mr. ZHANG Xiu Fu, Mr. YANG Qing Cai and Mr. TO Yan Ming Edmond as Independent Non-executive Directors.

This announcement will remain on the “Latest Company Announcements” page of the GEM website at www.hkgem.com for a minimum period of 7 days from the date of its publication and on the website of the Company at www.cvg.com.hk.

** For identification purposes only*