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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

FIRST QUARTERLY RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 30 SEPTEMBER 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 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.*

FIRST QUARTERLY RESULTS

The board of Directors (“**Board**”) of the Company announces that the unaudited consolidated results of the Company and its subsidiaries (together as the “**Group**”) for the three months ended 30 September 2016 (“**Period 2016**”), together with the comparative unaudited figures for the corresponding period in 2015 (“**Period 2015**”), as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		(Unaudited)	
		Three months ended	
		30 September	
		2016	2015
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	2	8,188	17,307
Costs of sales		<u>(1,107)</u>	<u>(1,021)</u>
Gross profit		7,081	16,286
Other income		378	1,441
Selling and distribution expenses		(1,647)	(1,521)
Administrative and operating expenses		<u>(23,828)</u>	<u>(22,542)</u>
Operating loss		(18,016)	(6,336)
Finance costs		(3,284)	(2,891)
Share of result of joint ventures		<u>(8)</u>	<u>(341)</u>
Loss before tax	3	(21,308)	(9,568)
Income tax credit	4	<u>404</u>	<u>1,055</u>
Loss for the period		<u>(20,904)</u>	<u>(8,513)</u>
Loss for the period attributable to:			
Equity holders of the Company		(19,134)	(7,641)
Non-controlling interests		<u>(1,770)</u>	<u>(872)</u>
		<u>(20,904)</u>	<u>(8,513)</u>

		(Unaudited)	
		Three months ended	
		30 September	
		2016	2015
<i>Notes</i>		<i>HK\$'000</i>	<i>HK\$'000</i>
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		<u>(718)</u>	<u>(4,266)</u>
Total comprehensive loss for the period		<u>(21,622)</u>	<u>(12,779)</u>
Total comprehensive (loss)/income for the period attributable to:			
Equity holders of the Company		<u>(19,813)</u>	<u>(12,856)</u>
Non-controlling interests		<u>(1,809)</u>	<u>77</u>
		<u>(21,622)</u>	<u>(12,779)</u>
Loss per share attributable to equity holders of the company			
	5		
Basic		<u>(HK0.59 cent)</u>	<u>(HK0.24 cent)</u>
Diluted		<u>N/A</u>	<u>N/A</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended 30 September 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 (“**HKICPA**”) and the applicable disclosure requirements of GEM Listing Rules.

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

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)	
	Three months ended	
	30 September	
	2016	2015
	HK\$'000	HK\$'000
Revenue		
Lottery-related services	7,319	17,307
Others	869	—
	<u>8,188</u>	<u>17,307</u>

3. LOSS BEFORE TAX

Loss before tax has been arrived at after charging/(crediting):

	(Unaudited)	
	Three months ended	
	30 September	
	2016	2015
	HK\$'000	HK\$'000
Cost of inventories sold	1,107	1,021
Equity-settled share-based payments	326	1,424
Depreciation of property, plant and equipment	1,155	733
Interest income	(39)	(299)
Gain on change in fair value of contingent consideration	(204)	—
Exchange losses/(gains), net	890	(930)
Interest on convertible bonds	3,231	2,891
	<u>3,231</u>	<u>2,891</u>

4. INCOME TAX CREDIT

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 2016 (Period 2015: Nil).

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

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

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

Loss

	(Unaudited)	
	Three months ended	
	30 September	
	2016	2015
	HK\$'000	HK\$'000
Loss for the period attributable to the equity holders of the Company	<u>(19,134)</u>	<u>(7,641)</u>
Number of shares		
	'000	'000
Weighted average number of ordinary shares for the purposes of basic loss per share	<u>3,227,065</u>	<u>3,209,459</u>

For the three months ended 30 September 2016, outstanding share options and convertible bonds of the Company are anti-dilutive (Three months ended 30 September 2015: anti-dilutive) since their exercise or conversion would result in a decrease in loss per share (Three months ended 30 September 2015: decrease in loss per share).

6. MOVEMENT OF RESERVES

For the three months ended 30 September 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 2016 (audited)	2,442,537	1,484	35,572	10,056	6,522	24,184	(1)	5,769	(2,430,120)	96,003
Loss for the period	—	—	—	—	—	—	—	—	(19,134)	(19,134)
Exchange differences arising on translation of financial statements of overseas operations	—	—	—	—	(679)	—	—	—	—	(679)
Total comprehensive (loss)/income for the period	—	—	—	—	(679)	—	—	—	(19,134)	(19,813)
Recognition of equity-settled share-based payments	—	—	—	326	—	—	—	—	—	326
Share options lapsed	—	—	—	(2,712)	—	—	—	—	2,712	—
At 30 September 2016 (unaudited)	<u>2,442,537</u>	<u>1,484</u>	<u>35,572</u>	<u>7,670</u>	<u>5,843</u>	<u>24,184</u>	<u>(1)</u>	<u>5,769</u>	<u>(2,446,542)</u>	<u>76,516</u>

For the three months ended 30 September 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 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	—	—	—	—	—	—	—	—	(7,641)	(7,641)
Exchange differences arising on translation of financial statements of overseas operations	—	—	—	—	(5,215)	—	—	—	—	(5,215)
Total comprehensive (loss)/income for the period	—	—	—	—	(5,215)	—	—	—	(7,641)	(12,856)
Recognition of equity-settled share-based payments	—	—	—	1,424	—	—	—	—	—	1,424
Share options lapsed	—	—	—	(142)	—	—	—	—	142	—
Shares issued upon exercise of share options	1,325	—	—	(350)	—	—	—	—	—	975
At 30 September 2015 (unaudited)	<u>2,432,049</u>	<u>1,484</u>	<u>35,572</u>	<u>11,893</u>	<u>12,107</u>	<u>24,184</u>	<u>(1)</u>	<u>10,184</u>	<u>(2,232,517)</u>	<u>294,955</u>

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

The unaudited condensed consolidated first quarterly financial statements were approved and authorised for issue by the Board on 11 November 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

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

For Period 2016, the Group recorded unaudited consolidated revenue of HK\$8.2 million, decreased by 53% against Period 2015 of HK\$17.3 million. Revenue decreased as the result of a decline in sales of lottery related business. The gross profit ratio decreased to about 87% as compared with 94% for Period 2015.

For Period 2016, the Group recorded a net loss attributable to the equity holders of HK\$19.1 million, increased 150% from HK\$7.6 million for Period 2015. Selling and distribution expenses and administrative expenses in Period 2016 amounted to HK\$25.5 million, increased 6% as compared to HK\$24.1 million in Period 2015.

Finance costs for Period 2016 increased 14% to HK\$3.3 million as compared to HK\$2.9 million for Period 2015 relating to increase in imputed finance costs on convertible bonds.

Business Review

During Period 2016, the Group has engaged in the provision of services for lottery transaction system, lottery Point-of-Sale (“POS”) terminals and self-service lottery operations in the PRC. Besides, the Group is further developing a new business model, an innovative interactive in-store marketing solution, Yao Cai (“搖彩”). To participate in the Yao Cai’s marketing activities and events, the public can utilize their own mobile devices via WeChat “Shake” function as well as unique QR code, to interact with our proprietary Bluetooth beacon device and our out-of-home (“OOH”) LED display information dissemination system for interactive marketing.

The Group has entered into a cooperation agreement with Liaoning Sports Lottery Issuance Centre for the provision of Yao Cai solution during Period 2016. As of the date of this report, LED displays with Yao Cai were successfully installed in selected lottery stores in Anhui, Gansu, and Liaoning provinces. Through the provision of the solution, the Group will receive various incomes and commercializing screen time as contracts and relevant approvals allowed.

For the self-service lottery operation, the Group still suspended most of our self-service lottery operations even though most of our contracts with lottery centers are still valid and in place. This suspension is regarded as tantamount to our reply to the recent government position in the enforcement on forbidden of unauthorized online lottery sales. We continue our pursuit of the reactivation of self-service lottery business.

For the traditional lottery business operation, the Group has been serving lottery centres in various provinces for lottery transaction system and maintenance of lottery POS terminals over a decade.

Outlook and Strategies

Broadening lottery consumer base and improving the lottery consumption experience are two key factors of the lottery industry development. The Board believes that our proprietary innovative marketing solution, Yao Cai, with its interactive features and OOH LED display information dissemination system, can deliver a modernized and digitized marketing solution, as well as a platform for third-party advertisers to outreach their target customer group with more precision.

The Group will continue to ride on its solid foundation of wide geographic coverage in the PRC to rollout new services like Yao Cai and create a win-win situation for lottery centers, lottery consumers, and third-party advertisers while providing new revenue streams for the Group at the same time.

As for our self-service lottery operations, we are confident that the self-service lottery policy will become more directive in the future when the position of government for lottery sales through online channels is further developed. Self-service lottery is a relatively new distribution channel for the lottery so we still believe that the self-service lottery has a lot of business opportunities in long run. The Group will continue to equip ourselves while awaiting for the reactivation of this business segment.

In addition, the Group will devote resources in developing new lottery products and services to elevate lottery consumption experience and enhance the image of the lottery stores at the same time.

Dividend

The Board does not recommend the payment of dividend for the three months ended 30 September 2016 (three months ended 30 September 2015: Nil).

GENERAL INFORMATION

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

During the three months ended 30 September 2016, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's Shares .

Competing Interests

As at 30 September 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 the 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 "CG Code") during the three months ended 30 September 2016, except for the following deviation:

Code provision A.4.1

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

The corporate governance practices of the Company will be reviewed and updated from time to time in order to comply with 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 three months ended 30 September 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 consolidated results for the three months ended 30 September 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, 11 November 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*