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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

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 30 JUNE 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 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.*

ANNUAL RESULTS

The board of Directors (the “**Board**”) of the Company is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred as the “**Group**”) for the year ended 30 June 2016 (“**Year 2016**”), together with the comparative audited figures for the preceding financial year (“**Year 2015**”) as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2016

	<i>Notes</i>	Year ended 30-6-2016 HK\$'000	Year ended 30-6-2015 HK\$'000
Revenue	5	34,657	123,736
Cost of sales		(3,113)	(5,950)
Gross profit		31,544	117,786
Other income	5	10,203	3,876
Gain on disposal of subsidiaries		–	4,665
Provision for doubtful receivables		(46,465)	–
Impairment loss on goodwill		(84,967)	–
Selling and distribution expenses		(6,276)	(5,246)
Administrative and operating expenses		(106,971)	(89,283)
Operating (loss)/profit		(202,932)	31,798
Finance costs	6	(11,988)	(10,720)
Share of result of joint ventures		(490)	(905)
(Loss)/profit before tax	7	(215,410)	20,173
Income tax credit/(expenses)	8	1,568	(2,329)
(Loss)/profit for the year		(213,842)	17,844
(Loss)/profit for the year attributable to:			
Equity holders of the Company		(206,778)	19,107
Non-controlling interests		(7,064)	(1,263)
		(213,842)	17,844

		Year ended 30-6-2016 <i>HK\$'000</i>	Year ended 30-6-2015 <i>HK\$'000</i>
	<i>Notes</i>		
Other comprehensive (expense)/income for the year, 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		(11,469)	133
Total comprehensive (expense)/income for the year		(225,311)	17,977
Total comprehensive (expense)/income for the year attributable to:			
Equity holders of the Company		(217,578)	19,229
Non-controlling interests		(7,733)	(1,252)
		(225,311)	17,977
(Loss)/earnings per share attributable to equity holders of the Company			
Basic	10	(HK6.43 cent)	HK0.60 cent
Diluted	10	N/A	HK0.57 cent

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	<i>Notes</i>	30-6-2016 HK\$'000	30-6-2015 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		16,070	11,783
Goodwill		99,288	174,050
Intangible assets		14,674	19,541
Available-for-sale financial assets		—	—
Interests in joint ventures		15,110	16,077
		145,142	221,451
Current assets			
Inventories		5,059	1,425
Trade and other receivables and prepayments	<i>11</i>	76,111	151,478
Bank balances and cash		32,999	92,942
		114,169	245,845
Current liabilities			
Trade payables, accruals and other payables	<i>12</i>	18,797	27,665
Amount due to a director		732	45
Convertible bonds	<i>13</i>	83,434	—
Deferred tax liabilities		1,746	—
Tax liabilities		5,121	5,265
		109,830	32,975
Net current assets		4,339	212,870
Total assets less current liabilities		149,481	434,321

		30-6-2016	30-6-2015
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current liabilities			
Convertible bonds	13	—	73,238
Deferred tax liabilities		—	3,132
		—	76,370
Net assets		149,481	357,951
Capital and reserves			
Share capital		40,338	40,097
Reserves		96,003	305,412
Equity attributable to equity holders of the Company		136,341	345,509
Non-controlling interests		13,140	12,442
Total equity		149,481	357,951

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2016

1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the GEM. The Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is located at Units 307-313, 3/F., Wireless Centre, Phase One Hong Kong Science Park, Pak Shek Kok, New Territories, Hong Kong.

The consolidated financial statements are presented in Hong Kong Dollar which is the Company's functional and presentation currency.

The Company is an investment holding company. The principal activities of its subsidiaries are (i) provision of lottery-related services (ii) land and property development, trading and consulting services, and (iii) others.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial information also comply with the applicable disclosure provisions of the GEM Listing Rules.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at revalued amounts or fair values, as appropriate. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The consolidated financial statements have been prepared on a going concern basis, the Group had incurred a loss attributable to shareholders of approximately HK\$206.8 million for the year ended 30 June 2016, net current assets of approximately HK\$4.3 million as at 30 June 2016 and the convertible bonds with principal amount of approximately HK\$89.6 million due on 17 January 2017. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. In preparing the consolidated financial statements, the directors of the Company have carefully reviewed the Group's cash position as at the end of the reporting period. In reviewing the Group's cash flows, the directors of the Company have considered the following factor:

A major and controlling shareholder confirms that fund, if required, will be made available to the Company through shareholder's loans to meet the present and future cash flow requirement from operation and settlement of its outstanding obligations.

The directors of the Company believe that the Group is able to meet its financial obligations in full as and when they fall due and consider that the preparation of the consolidated financial statements on going concern basis is appropriate.

3. APPLICATION OF NEW AND REVISED HKFRSS

For the purpose of preparing and presenting the consolidated financial statements for the year ended 30 June 2016, the Group has adopted all the HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) that are effective for the Group’s financial year beginning on 1 July 2015.

The application of the amendments to HKFRSs and the new Interpretation in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or the disclosures set out in these consolidated financial statements.

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

HKFRSs (Amendments)	Annual Improvement 2012-2014 Cycle ¹
Amendments to HKAS 1	Disclosure Initiative ¹
Amendments to HKAS 7	Disclosure Initiative ²
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ²
HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amorisation ¹
Amendments to HKAS 27	Equity Method in Separate Financial Statements ¹
HKFRS 9 (2014)	Financial Instruments ³
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁵
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception ¹
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers ³
HKFRS 15	Revenue from Contracts with Customers ³
HKFRS 16	Leases ⁴

¹ Effective for annual periods beginning on or after January 1, 2016

² Effective for annual periods beginning on or after January 1, 2017

³ Effective for annual periods beginning on or after January 1, 2018

⁴ Effective for annual periods beginning on or after January 1, 2019

⁵ On January 6, 2015, the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) issued “Effective Date of Amendments to HKFRS 10 and HKAS 28, following the International Accounting Standards Board’s equivalent amendments. This update defers/removes the effective date of the amendments in Sale or Contribution of Assets between an Investor and its Associate or Joint Venture that the HKICPA issued on October 7, 2014. Early application of these amendments continues to be permitted.

4. SEGMENT INFORMATION

The factors that used to identify the Group's operating segments, including the basis of organization are mainly based on the types of products sold and services provided by the Group's operating divisions as follows:

- (a) Provision of lottery-related services
- (b) Land and property development, trading and consulting services
- (c) Others included wineries, distribution of natural supplementary products, catering services and sales of animal feeds.

Information regarding the above segments is reported below.

(a) Segment revenue and results

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

Year ended 30-6-2016

	Lottery- related services HK\$'000	Land and property development, trading and consulting services HK\$'000	Others HK\$'000	Total HK\$'000
Segment revenue:				
Sales to external customers	34,172	–	485	34,657
Segment results	(198,834)	(516)	(1,104)	(200,454)
Unallocated income				7,838
Unallocated expenses				(10,316)
Share of result of joint ventures				(490)
Finance costs				(11,988)
Loss before tax				(215,410)
Income tax credit				1,568
Loss for the year				(213,842)

Year ended 30-6-2015

	Lottery- related services <i>HK\$'000</i>	Land and property development, trading and consulting services <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue:				
Sales to external customers	123,722	–	14	123,736
Segment results	25,672	7,077	(319)	32,430
Unallocated income				92
Unallocated expenses				(724)
Share of result of joint ventures				(905)
Finance costs				(10,720)
Profit before tax				20,173
Income tax expenses				(2,329)
Profit for the year				17,844

(b) Segment assets and liabilities

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

30-6-2016

	Lottery- related services <i>HK\$'000</i>	Land and property development, trading and consulting services <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Assets				
Segment assets	228,750	971	1,428	231,149
Unallocated assets				28,162
Total assets				259,311
Liabilities				
Segment liabilities	17,932	529	54	18,515
Unallocated liabilities				7,881
Convertible bonds				83,434
Total liabilities				109,830

30-6-2015

	Lottery- related services <i>HK\$ '000</i>	Land and property development, trading and consulting services <i>HK\$ '000</i>	Others <i>HK\$ '000</i>	Total <i>HK\$ '000</i>
Assets				
Segment assets	412,095	16,052	710	428,857
Unallocated assets				38,439
Total assets				467,296
Liabilities				
Segment liabilities	21,714	524	—	22,238
Unallocated liabilities				13,869
Convertible bonds				73,238
Total liabilities				109,345

For the purposes of monitoring segment performances and allocating resources between segments, all assets are allocated to operating segments other than other corporate assets.

The chief operating decision maker mainly reviews the segment assets for the purposes of resource allocation and performance assessment. An analysis of the Group's liabilities is not regularly reviewed by the chief operating decision maker and hence, the relevant information is not presented accordingly.

(c) **Other segment information**

Year ended 30-6-2016

	Lottery- related services <i>HK\$'000</i>	Land and property development, trading and consulting services <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Amounts included in the measure of segment profit or loss or segment assets:				
Additions to property, plant and equipment	8,505	–	673	9,178
Depreciation of property, plant and equipment	4,166	36	25	4,227
Impairment loss on goodwill	84,967	–	–	84,967
Impairment loss on intangible assets	745	–	–	745
Loss on disposal of property, plant and equipment	204	–	–	204
Provision for doubtful receivables	45,644	10	811	46,465
Written off of other receivables	109	–	–	109
Amortization of intangible assets	3,035	–	–	3,035

Year ended 30-6-2015

	Lottery- related services <i>HK\$ '000</i>	Land and property development, trading and consulting services <i>HK\$ '000</i>	Others <i>HK\$ '000</i>	Total <i>HK\$ '000</i>
Amounts included in the measure of segment profit or loss or segment assets:				
Additions to property, plant and equipment	5,220	—	—	5,220
Depreciation of property, plant and equipment	3,446	37	—	3,483
Written off of obsolete stocks	418	—	—	418
Impairment loss on intangible assets	268	—	—	268
Amortization of intangible assets	102	—	—	102
	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>

(d) Geographical information

The Group's operations are mainly located in PRC. The following table provides an analysis of the Group's sales by geographical markets:

	Revenue from external customers	
	Year ended 30-6-2016 HK\$'000	Year ended 30-6-2015 HK\$'000
PRC	22,986	29,481
Hong Kong	11,671	94,255
	34,657	123,736

The following is an analysis of the carrying amount of total assets, and additions to property, plant and equipment analyzed by the geographical area in which the assets are located:

	Carrying amount of total assets		Additions to property, plant and equipment Capital expenditure	
	30-6-2016 HK\$'000	30-6-2015 HK\$'000	30-6-2016 HK\$'000	30-6-2015 HK\$'000
PRC	94,530	173,319	8,901	24,225
Hong Kong	164,781	293,977	11,103	143
	259,311	467,296	20,004	24,368

Revenue from major products and services

The Group's revenue from its products is as follows:

	Year ended 30-6-2016 HK\$'000	Year ended 30-6-2015 HK\$'000
Lottery-related services	34,172	123,722
Others	485	14
	34,657	123,736

(e) **Information about major customers**

Revenue from customers of the year ended 30 June 2016 contributing over 10% of the total sales of the Group is as follows:

	The Group Year ended 30-6-2016 <i>HK\$'000</i>
Customer A – Provision of lottery-related services	13,400
Customer B – Provision of lottery-related services	11,671
Customer C – Provision of lottery-related services	4,917

5. REVENUE AND OTHER INCOME

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 year is as follows:

	Year ended 30-6-2016 <i>HK\$'000</i>	Year ended 30-6-2015 <i>HK\$'000</i>
Revenue		
Provision of lottery-related services	34,172	123,722
Others	485	14
	34,657	123,736
	Year ended 30-6-2016 <i>HK\$'000</i>	Year ended 30-6-2015 <i>HK\$'000</i>
Other income		
Interest income	817	3,225
Gain on dissolve of subsidiaries	122	21
Gain on change in fair value of contingent consideration	4,304	–
Cancellation of consideration to acquire a subsidiary	3,350	–
Consulting income	–	450
Others	1,610	180
	10,203	3,876

6. FINANCE COSTS

	Year ended 30-6-2016 HK\$'000	Year ended 30-6-2015 HK\$'000
Interest on:		
– Convertible bonds	11,988	10,720

7. (LOSS)/PROFIT BEFORE TAX

	Year ended 30-6-2016 HK\$'000	Year ended 30-6-2015 HK\$'000
(Loss)/profit before tax has been arrived at after charging/(crediting):		
Staff costs (excluding Directors' emoluments):		
– Wages and salaries	42,694	37,122
– Retirement benefits scheme contributions	440	408
– Equity-settled share-based payment	3,952	6,905
Total staff costs	47,086	44,435
Cost of inventories sold	3,113	3,035
Auditors' remuneration	1,050	1,005
Depreciation of property, plant and equipment	4,478	3,746
Donations	20	188
Amortization of intangible assets	3,035	102
Equity-settled share-based payment to other eligible participants	51	758
Loss on disposal of property, plant and equipment	204	–
Gain on disposal of a subsidiary	–	(4,665)
Gain on dissolve of subsidiaries	(122)	(21)
Impairment loss on intangible assets	745	268
Impairment loss on goodwill	84,967	–
Minimum lease payments under operating leases:		
– Land and buildings	13,272	5,721
– Office equipment	50	51
Provision for doubtful receivables	46,465	–
Written-off of other receivables	109	–
Written-off of deposits and other receivables	–	43
Written-off of obsolete stocks	–	418
Exchange losses, net	116	370

8. INCOME TAX CREDIT/(EXPENSES)

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

	Year ended 30-6-2016 HK\$'000	Year ended 30-6-2015 HK\$'000
Current year		
– Hong Kong Profits Tax	–	(3,102)
– Other jurisdiction	–	(1,449)
	<u>–</u>	<u>(4,551)</u>
Over provision in prior years		
– Hong Kong Profits Tax	–	–
– Other jurisdiction	182	1,044
	<u>182</u>	<u>1,044</u>
	182	(3,507)
Deferred tax	1,386	1,178
	<u>1,386</u>	<u>1,178</u>
Income tax credit/(expenses) for the year	1,568	(2,329)
	<u>1,568</u>	<u>(2,329)</u>

Hong Kong Profits Tax has been provided at 16.5% (30-6-2015: 16.5%) to the assessable profit derived in Hong Kong. Taxation arising in other jurisdiction is calculated at the rates prevailing in the relevant jurisdiction.

9. DIVIDENDS

No dividend was paid or proposed during the year ended 30 June 2016, nor has any dividend been proposed since the end of reporting date (Year ended 30-6-2015: Nil).

10. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

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:

	Year ended 30-6-2016 HK\$'000	Year ended 30-6-2015 HK\$'000
(Loss)/profit for the year attributable to the equity holders of the Company	(206,778)	19,107
Number of shares	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	3,216,595	3,207,587
Weighted average number of ordinary shares for the purpose of diluted earnings per share	3,507,280	3,325,423

For the year ended 30 June 2016, outstanding convertible bonds of the Company are anti-dilutive (Year ended 30 June 2015: dilutive) since their exercise or concession would result in a decrease in loss per share (Year ended 30 June 2015: decrease in earnings per share).

11. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	30-6-2016 HK\$'000	30-6-2015 HK\$'000
Trade receivables	78,714	77,388
Other receivables and prepayments	43,936	74,164
	122,650	151,552
Less: Allowances for doubtful receivables	(46,539)	(74)
	76,111	151,478

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 reporting period:

	30-6-2016 HK\$'000	30-6-2015 <i>HK\$'000</i>
0 to 30 days	3,077	13,088
31 to 60 days	13,788	5,143
61 to 180 days	13,164	46,371
181 to 365 days	34,918	12,617
Over 1 year	13,767	169
	78,714	77,388

The trade receivables with carrying amount of approximately HK\$5,321,000 (30-6-2015: approximately HK\$51,740,000) are neither past due nor impaired at the reporting period.

The Group has policies for allowances of doubtful receivables which are based on the evaluation of collectability and age analysis of accounts and on the management's judgement including the credit worthiness, collaterals and the past collection history of each customer.

During the year ended 30 June 2016, the Group made an allowance of approximately HK\$40,000,000 (Year ended 30-6-2015: Nil) in respect of trade receivables, which was past due at the reporting date with long age and slow repayments were received from respective customers since the due date.

Movement in the allowances for doubtful receivables:

	30-6-2016 HK\$'000	30-6-2015 <i>HK\$'000</i>
Balance at the beginning of the year	74	74
Add: Addition for the year	46,465	–
	46,539	74

In determining the recoverability of the trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the reporting date. The trade receivables past due but not provided for were either subsequently settled as at the date of this announcement or no historical default of payments by the respective customers. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for bad and doubtful debts.

Included in the Group's trade receivables with a carrying amount of approximately HK\$33,319,000 (30-6-2015: approximately HK\$25,574,000) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amount are still considered recoverable. The Group does not hold any collateral over these balances. The aging of these overdue trade receivables but not impaired is as follows:

	30-6-2016 HK\$'000	30-6-2015 HK\$'000
0 to 30 days	1,359	4,644
31 to 60 days	1,308	876
61 to 180 days	2,115	17,597
181 to 365 days	11,811	2,362
Over 1 year	16,726	95
	33,319	25,574

The fair value of the Group's trade receivables as at 30 June 2016 approximates to the corresponding carrying amount.

Other receivables, deposits and prepayments included the following:

- (a) Deposits for acquisition of a subsidiary of approximately Nil which will be refunded in next financial year (30-6-2015: HK\$26,000,000).
- (b) Amounts due from subsidiaries of a joint venture of approximately HK\$1,117,000 (30-6-2015: approximately HK\$1,197,000). The amounts are unsecured, interest free and have no fixed repayment terms.
- (c) Amounts due from related companies of approximately HK\$351,000 (30-6-2015: approximately HK\$384,000). The amounts are unsecured, interest free and have no fixed repayment terms.

12. TRADE PAYABLES, ACCRUALS AND OTHER PAYABLES

	30-6-2016 HK\$'000	30-6-2015 HK\$'000
Trade payables	136	21
Accruals and other payables	18,661	27,644
	<u>18,797</u>	<u>27,665</u>

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:

	30-6-2016 HK\$'000	30-6-2015 HK\$'000
0 to 30 days	—	—
31 to 120 days	—	—
121 to 180 days	—	—
181 to 365 days	—	4
Over 1 year	136	17
	<u>136</u>	<u>21</u>

The fair value of the Group's trade payables, accruals and other payables as at 30 June 2016 approximates to the corresponding carrying amount.

Included in trade payables, accruals and other payables, there was consideration payable of approximately HK\$4,701,000 (30-6-2015: HK\$15,812,000) arisen from acquisition of subsidiaries during the year.

13. CONVERTIBLE BONDS

2% Coupon Bonds Due 2017

On 17 January 2014, the Company issued the 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 a general working capital and repayment of borrowings. The Bonds are convertible into fully paid ordinary shares with a conversion price of HK\$2.39 per conversion share. As a result of Share Subdivision, the number of Share fallings to be issued upon full conversion of the Bonds was adjusted to 150,000,000 at the conversion price of HK\$0.598.

Upon full conversion of the Bonds at the conversion price of HK\$2.39 per ordinary share of the Company, a total of 37,500,000 shares would be issued by the Company upon the exercise of the conversion rights attached to the Bonds. The Company shall redeem any convertible bonds which remain outstanding on the maturity date at its principal amount.

The convertible 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 convertible 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.

Detail of principal valuation parameters have been applied in determining the liability component and equity component was summarized as follows:

(a) Principal amount:	HK\$89,625,000
(b) Coupon rate:	2% per annum
(c) Maturity date:	17 January 2017
(d) Conversion price:	HK\$2.39
(e) Risk-free rate:	0.687%
(f) Expected volatility:	70.45%
(g) Expected dividend yield:	0%

The movement of the liability component of the convertible bonds for the year is set out below:

	30-6-2016 HK\$'000	30-6-2015 HK\$'000
Nominal value of convertible bonds issued	89,625	89,625
Equity component	(28,963)	(28,963)
Liability component	60,662	60,662
Imputed finance costs	27,162	15,174
Interest paid and payable	(4,390)	(2,598)
Carrying amount	83,434	73,238

MANAGEMENT DISCUSSIONS AND ANALYSIS

Business Review

Lottery Operations

The Group is a comprehensive lottery solution provider of end-to-end hardware and software solutions, downstream channel management services and marketing promotion to Sports Lottery and Welfare Lottery Centres in 22 provinces and regions in the PRC.

New Business

The Group has continued its course to develop its lottery operations and during Year 2016, we are delighted to introduce two new business models to enrich the services and products pertaining to lottery operations.

- 1) Yao Cai (“搖彩”) is an interactive in-store marketing solution that has adopted our proprietary Bluetooth low energy hardware device. It will offer incentive-based consumer mass marketing promotions services, utilizing WeChat (“微信”) through the “Shake” (“微信搖一搖”) function as well as unique QR code. This solution is applicable to all physical distribution outlets, and is aimed to broaden the consumer base through interactive marketing activities to enhance the consumers’ engagement level and satisfaction. During Year 2016, the Group has successfully signed with three provincial and regional Sports Lottery Issuance Centres, including Liaoning, Shenzhen and Gansu, on Yao Cai and has started off trial runs in selected locations.
- 2) Out-of-home (“OOH”) advertising and information dissemination system which is based on LED display panel, not only modernizes and digitizes the marketing and lottery information dissemination, but also improves the efficiency and the image of the lottery distribution outlets. This business generates revenue through rental income while also enables us to operate OOH advertising as permitted. In Year 2016, the Group has successfully contracted with two provincial Sports Lottery Issuance Centres, including Anhui and Liaoning, and as at the date of this announcement, the operation team has already implemented the systems as contracted.

The proprietary technology behind the above solutions has won us both the Gold Medal of its category in the 44th International Exhibitions of Inventions of Geneva and the special award from the Association “Russian House for International Scientific and Technological Cooperation”. The Group shall ride on its existing coverage over the 22 provinces and regions and shall strive to rollout these innovative solutions into various provinces in the PRC.

Key Strategic Moves

In August 2015, the Group entered into a strategic cooperation agreement with All In Pay Network Services Co., Ltd. (“All In Pay”) to co-develop a full-fledged, systematic solution whereas All In Pay shall provide the Group with a tailor-made, integrated all-in-one payment and settlement solution. This is one of the moves as an on-going effort to improve the accessibility and to provide convenience to lottery customers.

In view of impending growth in the industry and the Group’s Sports Lottery related operations, the Group endeavored to realign its resources to further focus Sports Lottery business through a restructuring in January 2016 to enhance the effective utilization of its resources and achieve greater efficiency within the Group. The restructuring process is currently well underway and in process. The Group remains positive on the outlook of the Sport Lottery related services operation.

We see these strategic moves not only further strengthen the services and products the Group can provide through the collaboration with strategic partners, but also better equip ourselves to meet new opportunities.

Operation

During Year 2016, several ministerial offices through the issuance of government notices expressed their strong position with regards to the enforcement and forbidden of unauthorized lottery sales through online channels. The Group has voluntarily suspended most of our self-service lottery operations in response. The Group understands that the situation is only temporary and would like to stress that the contracts with various lottery centers are still valid and in-place. Self-service lottery is a comparatively new segment of the industry with more business opportunities, while at the same time it could be more susceptible to policy development. As a trusted partner with the lottery authorities, we continue working with them closely and actively to reactivate self-service lottery operation.

Outlook and Strategies

The board is of the view that the innovative nature of the marketing services will transform lottery consumption behavior that will be catalytic in increasing lottery sales and create 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 and share of marketing service revenue from third-party social media engagement. Going forward, our further development of interactive marketing services will advance to a precision marketing solution by offering personalized advertising services. We believe this further development would meet the demand for high end advertising. The digitalization and mobilization of modern business operations have 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. The Board is of the view that the new services offered will create a significant new revenue stream for the Group.

As we review this year's achievement and progress, I would like to take this opportunity to express our sincere gratitude towards our customers, partners, suppliers, and to our Shareholders, for your invaluable insights, catapulting our development and encouraging our teams to keep forging ahead. I look forward to your continuous feedback and partnerships in the coming years.

Financial Review

Results

During the year ended 30 June 2016, the Group recorded revenue of HK\$35 million, a decrease of 72% over revenue of HK\$124 million for the same period in 2015, while gross profit for the period of HK\$32 million also represented a decrease of 73% over gross profit of HK\$118 million in the corresponding period in 2015. Revenue and gross profit decreased as the result of the sales of lottery industry in the PRC's lottery market slightly decreased for the first time in the past five years.

The Group recorded a loss attributable to equity holders of HK\$207 million for the year under review. The profit attributable to the equity holders in Year 2015 was HK\$19 million. The primary reason for the loss is that in Year 2016, the sales of lottery industry slightly decrease in the PRC's lottery market and regulatory authorities stance on the enforcement of the Internet lottery has been stronger. As a result, the Group recorded impairment losses on goodwill of HK\$85 million to reflect the current market situation. Furthermore, the Group recorded provision for doubtful receivables of HK\$46 million for which was past due at the reporting date with long age since the due date.

Liquidity, Financial Resources and Gearing Ratio

As at 30 June 2016, Shareholder's fund amounted to HK\$149 million (2015: HK\$358 million). Current assets amounted to HK\$114 million (2015: HK\$246 million), mainly comprising of trade and other receivables and prepayments, bank balances and cash. Current liabilities amounted to HK\$110 million (2015: HK\$33 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\$33 million which were mainly held in HK\$, RMB and US\$ (2015: HK\$93 million). Net asset value per share was HK\$0.05 (2015: HK\$0.11).

As at 30 June 2016, the gearing ratio of the Group was 56% on the basis of the Group's total interest-bearing borrowings divided by total equity (2015: 21%).

Capital Structure

On 16 December 2014, Shareholders of the Company approved the ordinary resolution in relation to the proposed share subdivision at an extraordinary general meeting of the Company. Pursuant to which, with effect from 17 December 2014, each existing issued and unissued share of HK\$0.050 each in the share capital of the Company was divided into four subdivided shares of HK\$0.0125 each (the “**Share Subdivision**”). As a result of the Share Subdivision, adjustments to the share option scheme adopted on 31 January 2013 and to the convertible bonds issued on 17 January 2014 have been made respectively.

As at 30 June 2016, the issued share capital of the Company was 3,227,065,068 Shares.

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 a rate of 2% per annual as general working capital and for repayment of borrowings (the “**Bonds**”). A maximum number of 37,500,000 shares would be issued by the Company upon full conversion of the Bonds at the conversion price of HK\$2.39 per share into full-paid ordinary shares of the Company. As a result of Share Subdivision, 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 Bonds shall remain unchanged.

As at 30 June 2016, no conversions have been made for the Bonds issued by holders of the Bonds or redeemed by the Company.

Contingent Liabilities and Pledge of Assets

The Group had no contingent liabilities as at 30 June 2016 (30 June 2015: Nil).

No assets of the Group was pledged as securities to any third parties as at 30 June 2016 (30 June 2015: Nil).

Commitments

The Group had capital commitments at HK\$39 million and operating commitments as lease of HK\$16 million from operations as at 30 June 2016 (30 June 2015: capital commitments of 60 million and operating lease commitments of HK\$7 million respectively).

Significant Investments, Material Acquisition and Disposal of Subsidiaries

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

Foreign Exchange Exposure

No significant exchange risk is expected as the Group's cash, borrowings, income and expenses are settled in HK\$, RMB or 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.

DIVIDENDS

The Board does not recommend the payment of any dividend for the year ended 30 June 2016 (2015: Nil).

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

During the year ended 30 June 2016, 19,300,000 Shares were issued to eligible persons after they had exercised their Share option rights. Net proceeds exclusive of handling fees of HK\$8,543,350 was received.

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

CORPORATE GOVERNANCE

Corporate Governance Practice

The Company has adopted and complied with the applicable code of provisions as set out in CG Code contained in Appendix 15 of the GEM Listing Rules during the year ended 30 June 2016, except for the following deviations which are summarized below:

Code Provision A.4.1

The Non-executive Director and the INEDs of the Company were not appointed under specific terms but are subject to retirement by rotation in annual general meetings of the Company at least once every time 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 Shareholders. The retirement and re-election requirements of INEDs have given the rights to the Shareholders to approve the continuation of INEDs' offices.

Code Provision A.6.7

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

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

Directors' Securities Transactions

The Company has adopted the required standards of dealings set out in the Code of Conduct for securities transactions by the Directors in respect of the Shares of the Company. Have made specific enquiries, the Company has confirmed with all the Directors that they have complied with the required standards as set out in the Code of Conduct throughout the year ended 30 June 2016.

Audit Committee

The Audit Committee comprises three INEDs, namely, Mr. TO Yan Ming Edmond, Mr. YANG Qing Cai and Mr. ZHANG Xiu Fu. Mr. TO was appointed as the Chairperson of the Audit Committee. The major duties and functions of Audit Committee are (i) to review the financial information of the Company; (ii) to review the accounting policies, financial position and results, financial reporting system, and risk management and internal control systems of the Group; (iii) to oversee the relationship between the Company and the external auditors and (iv) to provide recommendations and advices to the Board on the appointment, re-appointment and removal of external auditors as well as their term of appointment. During the year ended 30 June 2016, the Audit Committee held five meetings (i) to discuss the financial reporting and the compliance procedures with the external auditors; (ii) to review the audited annual results and unaudited quarterly and interim results; (iii) to consider the re-appointment of auditors of the Company; and (iv) to discuss and revise the terms of reference of the Audit Committee.

The Group's audited consolidated results for the year ended 30 June 2016 has been reviewed by the Audit Committee of the Company.

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, 27 September 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 posting and on the website of the Company at www.cvg.com.hk.

** For identification purposes only*