



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 2012

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

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The Board of Directors (the “Board”) of China Vanguard Group Limited (the “Company”) presented the audited consolidated results of the Company and its subsidiaries (together the “Group”) for the year ended 30 June 2012, together with comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2012

	<i>Notes</i>	2012 HK\$'000	2011 <i>HK\$'000</i>
Continuing operations			
Revenue	4	104,838	112,734
Cost of sales		(37,933)	(39,464)
Gross profit		66,905	73,270
Other revenue	4	1,318	18,093
Selling and distribution costs		(10,833)	(12,470)
Administrative expenses		(89,323)	(96,309)
Operating loss		(31,933)	(17,416)
Impairment loss on goodwill		(996,373)	(63,964)
Impairment loss on other intangible assets		–	(14,174)
Impairment loss on available-for-sale financial assets		(63,783)	(7,693)
(Loss) gain on disposal of subsidiaries		(2,606)	5,810
Loss on disposal of available-for-sale financial assets		(21)	(6,436)
Gain on changes in fair value of derivative financial instruments		116	1,666
Finance costs	5	(10,315)	(3,716)
Loss before taxation	6	(1,104,915)	(105,923)
Income tax expenses	7	(3,036)	(4,317)
Loss for the year from continuing operations		(1,107,951)	(110,240)
Discontinued operation			
Profit for the year from discontinued operation	9	–	178,404
(Loss) profit for the year		(1,107,951)	68,164

	<i>Notes</i>	2012 HK\$'000	2011 <i>HK\$'000</i>
Attributable to:			
Equity holders of the Company		(1,107,505)	61,439
Non-controlling interests		(446)	6,725
		<u>(1,107,951)</u>	<u>68,164</u>
(Loss) earnings per share			
From continuing operations and discontinued operation			
Basic	10	<u>(HK33.93 cents)</u>	<u>HK1.91 cents</u>
Diluted	10	<u>(HK33.93 cents)</u>	<u>HK1.90 cents</u>
From continuing operations	10		
Basic		<u>(HK33.93 cents)</u>	<u>(HK3.64 cents)</u>
(Loss) profit for the year		(1,107,951)	68,164
Other comprehensive (expenses) income for the year			
Exchange differences on translation of financial statements of overseas operations		2,173	10,459
Changes of interests in subsidiaries and a subsidiary of a jointly controlled entity		(27,270)	—
Total comprehensive (expenses) income for the year		<u>(1,133,048)</u>	<u>78,623</u>
Attributable to:			
Equity holders of the Company		(1,094,297)	69,500
Non-controlling interests		(38,751)	9,123
Total comprehensive (expenses) income for the year		<u>(1,133,048)</u>	<u>78,623</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2012

	<i>Notes</i>	2012 HK\$'000	2011 HK\$'000
Non-current assets			
Property, plant and equipment	11	16,154	29,987
Goodwill	18	94,475	1,090,848
Other intangible assets		–	–
Available-for-sale financial assets	14	–	64,140
		110,629	1,184,975
Current assets			
Inventories	12	3,936	4,305
Trade and other receivables and prepayments	13	43,543	29,935
Tax recoverable		–	10
Pledged bank deposits		5,223	5,157
Bank balances and cash		81,186	68,155
		133,888	107,562
Current liabilities			
Trade payables, accrued liabilities and other payables	15	61,260	31,245
Tax liabilities		2,271	1,406
Derivative financial instruments	17	–	143
Bank and other borrowings	16	32,419	60,405
Convertible bonds	17	7,365	–
		103,315	93,199
Net current assets		30,573	14,363
Total assets less current liabilities		141,202	1,199,338
Non-current liabilities			
Bank and other borrowings	16	74,331	–
Convertible bonds	17	–	8,185
		74,331	8,185
Net assets		66,871	1,191,153

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Capital and reserves		
Share capital	32,719	32,219
Reserves	17,947	1,104,344
Equity attributable to equity holders of the Company	50,666	1,136,563
Non-controlling interests	16,205	54,590
Total equity	66,871	1,191,153

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2012

	Attributable to equity holders of the Company											Non-controlling interests	Total
	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Employee share-based compensation reserve HK\$'000	Share option reserve HK\$'000	Translation reserve HK\$'000	Special reserve HK\$'000	Capital reserve HK\$'000	Retained profits/(Accumulated losses) HK\$'000	Discontinued operation HK\$'000	Total HK\$'000		
At 1 July 2010	32,119	2,155,574	234	35,572	11,092	12,661	(1)	-	(1,181,868)	441,190	1,506,573	469,020	1,975,593
Profit for the year	-	-	-	-	-	-	-	-	61,439	-	61,439	6,725	68,164
Exchange differences on translation of financial statements of overseas operations	-	-	-	-	-	8,061	-	-	-	-	8,061	2,398	10,459
Total comprehensive income for the year	-	-	-	-	-	8,061	-	-	61,439	-	69,500	9,123	78,623
Capital contribution from non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	133,146	133,146
Acquisition of additional interests in a subsidiary	-	-	-	-	-	-	-	-	-	-	-	(200)	(200)
Exercise of convertible bonds issued by a subsidiary	-	-	-	-	-	-	-	-	-	(66,605)	(66,605)	-	(66,605)
Dilution of interests in a subsidiary	-	-	-	-	-	-	-	-	-	2,145	2,145	(2,145)	-
Shares issued on exercise of warrants	100	1,580	-	-	-	-	-	-	-	-	1,680	-	1,680
Release on deconsolidation of a subsidiary	-	-	-	-	-	-	-	-	-	(376,730)	(376,730)	-	(376,730)
Deconsolidation of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	(554,354)	(554,354)
At 30 June 2011 and at 1 July 2011	32,219	2,157,154	234	35,572	11,092	20,722	(1)	-	(1,120,429)	-	1,136,563	54,590	1,191,153
Loss for the year	-	-	-	-	-	-	-	-	(1,107,505)	-	(1,107,505)	(446)	(1,107,951)
Exchange differences on translation of financial statements of overseas operations	-	-	-	-	-	2,958	-	-	-	-	2,958	(785)	2,173
Changes of interests in subsidiaries and a subsidiary of a jointly controlled entity	-	-	-	-	-	55	-	10,195	-	-	10,250	(37,520)	(27,270)
Total comprehensive income (expenses) for the year	-	-	-	-	-	3,013	-	10,195	(1,107,505)	-	(1,094,297)	(38,751)	(1,133,048)
Shares issued on exercise of warrants	500	7,900	-	-	-	-	-	-	-	-	8,400	-	8,400
Capital contribution from non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	3,763	3,763
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(3,397)	(3,397)
At 30 June 2012	32,719	2,165,054	234	35,572	11,092	23,735	(1)	10,195	(2,227,934)	-	50,666	16,205	66,871

Notes:

- (i) The employee share-based compensation reserve comprises the purchase consideration for issued shares of the Company acquired for the Share Options Plan for the purpose of satisfying the exercise of share options to be granted to eligible employees and participants.
- (ii) The share option reserve comprises the cumulative value of employee services received for the issue of share options.
- (iii) The translation reserve comprises:
 - (a) The foreign exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from the functional currency of the Company.
 - (b) The exchange differences on monetary items which form part of the Group's net investment in the foreign operations.
- (iv) Capital reserve represents gain on acquisition and disposal of interests in subsidiaries and a subsidiary of a jointly controlled entity. Details are summarized as follows:

During the year, the Group acquired a 49% equity interest in Cheerfull Group Holdings Limited ("Cheerfull"), a 1% equity interest in Shenzhen Longjiang Fengcai IT Co. Limited ("SZLFC") and disposed a 2.94% equity interest in Chongqing Lightsoft Technology Development Co., Limited ("CLTD").

	Cheerfull <i>HK\$'000</i>	SZLFC <i>HK\$'000</i>	CLTD <i>HK\$'000</i>	Total <i>HK\$'000</i>
Fair value of consideration (paid) received	(27,200)	(304)	234	(27,270)
Amounts recognized as non-controlling interests	37,044	699	(223)	37,520
Exchange differences	—	(55)	—	(55)
Positive movement in parent equity	<u>9,844</u>	<u>340</u>	<u>11</u>	<u>10,195</u>
Increase (decrease) in equity interest	<u>49%</u>	<u>1%</u>	<u>(2.94%)</u>	

- (v) For year ended 30 June 2011, details of dilution interest of a subsidiary is summarized as follows:

For the period from 1 July 2010 to date of deconsolidation, the Company's equity interest in Hong Kong Life Group Holdings Limited (formerly known as Aptus Holdings Limited) ("HK Life") has been changed. According to HKAS27 "Consolidated and separate financial statements", gain or loss arising on partial or deemed disposal of part of its interest to non-controlling interests without loss of control is recorded as equity transactions.

Details of change in the Company's equity interest in HK Life

	Conversion of convertible bonds to shares <i>HK\$'000</i>	Conversion of convertible bonds to shares <i>HK\$'000</i>	Subscription of shares <i>HK\$'000</i>	Conversion of convertible bonds to shares <i>HK\$'000</i>	Total <i>HK\$'000</i>
Fair value of consideration received	–	–	–	–	–
Amount recognized as non-controlling interests	456	1,631	(307)	365	2,145
Positive (negative) movement in parent equity	456	1,631	(307)	365	2,145
Decrease in equity interest	0.29%	1.02%	0.22%	0.22%	1.75%
	<i>Note a</i>	<i>Note b</i>	<i>Note c</i>	<i>Note d</i>	
					<i>HK\$'000</i>
Analyzed for:					
Deemed disposal of equity interest in a subsidiary					2,145

Notes:

- Being conversion of convertible bonds into 80,000,000 shares in HK Life on 5 July 2010.
- Being conversion of convertible bonds into 320,000,000 shares in HK Life on 13 July 2010.
- Being subscription of 74,100,000 shares at HK\$0.17 per share on 23 August 2010.
- Being conversion of convertible bonds into 80,000,000 shares in HK Life on 8 September 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

HKFRSs (Amendments)	Improvements to HKFRSs 2010
HKFRS 7 (Amendments)	Disclosures – Transfers of financial assets
HKAS 24 (Revised 2009)	Related party disclosures
HK (IFRIC) – INT 14 (Amendments)	Prepayments of a minimum funding requirements

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 1 (Amendments)	Presentation of items of other comprehensive income ¹
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets ²
HKAS 19 (as revised in 2011)	Employee benefits ³
HKAS 27 (as revised in 2011)	Separate financial statements ³
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures ³
HKAS 32 (Amendments)	Offsetting financial assets and financial liabilities ⁴
HKFRSs (Amendments)	Annual improvements to HKFRSs 2009-2011 cycle ³
HKFRS 1 (Amendments)	Government loan ³
HKFRS 7 (Amendments)	Disclosures – Offsetting financial assets and financial liabilities ³
HKFRS 9	Financial instruments ⁵
HKFRS 9 and HKFRS 7 (Amendments)	Mandatory effective date of HKFRS 9 and transition disclosures ⁵
HKFRS 10	Consolidated financial statements ³
HKFRS 11	Joint arrangements ³
HKFRS 12	Disclosure of interests in other entities ³
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidation financial statements, joint arrangements and disclosure of interests in other entities: transition guidance ³
HKFRS 13	Fair value measurement ³
HK(IFRIC) – INT 20	Stripping costs in the production phase of a surface mine ³

¹ Effective for annual periods beginning on or after 1 July 2012.

² Effective for annual periods beginning on or after 1 January 2012.

³ Effective for annual periods beginning on or after 1 January 2013.

⁴ Effective for annual periods beginning on or after 1 January 2014.

⁵ Effective for annual periods beginning on or after 1 January 2015.

HKFRS 9 Financial instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

HKFRS 9 requires all recognized financial assets that are within the scope of HKAS 39 “Financial instruments: Recognition and measurement” to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss.

The directors of the Company anticipate that HKFRS 9 will be adopted by the Group for the annual period beginning on 1 July 2015. Except for the Group’s available-for-sale investment, the adoption of HKFRS 9 has no other impact on amounts reported in respect of the classification and measurement of the Group’s other financial assets and financial liabilities as at 30 June 2012. In the opinion of the directors of the Company, it is not practicable to provide a reasonable estimate of the effect on the Group’s available-for-sale investment until a detailed review has been completed.

HKFRS 13 Fair value measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad and it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 “Financial instruments: Disclosures” will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors of the Company anticipate that HKFRS 13 will be adopted by the Group for the annual period beginning on 1 July 2013 and that the application of the new standard may result in more extensive disclosures about fair value measurements in the consolidated financial statements.

Amendments to HKAS 1 Presentation of items of other comprehensive income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories:

- (a) items that will not be reclassified subsequently to profit or loss; and
- (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for the Group for annual period beginning on 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

Other than as described above, the directors of the Company anticipate that the application of other new and revised HKFRSs will have no material impact on the Group's financial performance and position and/or on the disclosures set out in these consolidated financial statements.

3. 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:

Continuing operations

- (a) Provision of lottery-related services
- (b) Provision of entertainment VAS services
- (c) Others included distribution of natural supplementary products, catering services and sales of animal feeds

Discontinued operation

- (a) Boxes for storage of deceased cremated ashes and other ancestral properties

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:

2012

	Continuing operations				Discontinued operation		
	Lottery-related services HK\$'000	Entertainment VAS HK\$'000	Others HK\$'000	Total HK\$'000	Boxes for storage of deceased cremated ashes and other ancestral properties HK\$'000	Total HK\$'000	Consolidated HK\$'000
Segment revenue:							
Sales to external customers	53,985	44,453	6,400	104,838	-	-	104,838
Segment results	9,041	(1,002,369)	(8,297)	(1,001,625)	-	-	(1,001,625)
Unallocated income				325		-	325
Unallocated expenses				(29,517)		-	(29,517)
Finance costs				(10,315)		-	(10,315)
Impairment loss on available-for-sale financial assets				(63,783)		-	(63,783)
Loss before taxation				(1,104,915)		-	(1,104,915)
Income tax expenses				(3,036)		-	(3,036)
Loss for the year				(1,107,951)		-	(1,107,951)

2011

	Continuing operations				Discontinued operation		
	Lottery-related services HK\$'000	Entertainment VAS HK\$'000	Others HK\$'000	Total HK\$'000	Boxes for storage of deceased cremated ashes and other ancestral properties HK\$'000	Total HK\$'000	Consolidated HK\$'000
Segment revenue:							
Sales to external customers	60,054	45,874	6,806	112,734	5,617	5,617	118,351
Segment results	28,531	(86,457)	(2,713)	(60,639)	(1,301)	(1,301)	(61,940)
Unallocated income				8,056		-	8,056
Unallocated expenses				(41,931)		-	(41,931)
Finance costs				(3,716)		(3,624)	(7,340)
Impairment loss on available-for-sale financial assets				(7,693)		-	(7,693)
Gain on deconsolidated of a subsidiary				-		183,339	183,339
Profit (loss) before taxation				(105,923)		178,414	72,491
Income tax expenses				(4,317)		(10)	(4,327)
Profit (loss) for the year				(110,240)		178,404	68,164

(b) **Segment assets**

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

2012

	Continuing operations				Discontinued operation		
	Lottery- related services HK\$'000	Entertainment VAS HK\$'000	Others HK\$'000	Total HK\$'000	Boxes for storage of deceased cremated ashes and other ancestral properties HK\$'000	Total HK\$'000	Consolidated HK\$'000
Assets							
Segment assets	137,239	76,859	4,517	218,615	-	-	218,615
Unallocated assets				25,902		-	25,902
Total assets				<u>244,517</u>		<u>-</u>	<u>244,517</u>
Liabilities							
Segment liabilities	8,016	43,808	971	52,795	-	-	52,795
Unallocated liabilities				10,736		-	10,736
Bank and other borrowings				106,750		-	106,750
Convertible bonds				7,365		-	7,365
Total liabilities				<u>177,646</u>		<u>-</u>	<u>177,646</u>

2011

	Continuing operations				Discontinuing operation		
	Lottery- related services HK\$'000	Entertainment VAS HK\$'000	Others HK\$'000	Total HK\$'000	Boxes for storage of deceased cremated ashes and other ancestral properties HK\$'000	Total HK\$'000	Consolidated HK\$'000
Assets							
Segment assets	146,510	1,055,258	5,510	1,207,278	-	-	1,207,278
Unallocated assets				85,259		-	85,259
Total assets				<u>1,292,537</u>		<u>-</u>	<u>1,292,537</u>
Liabilities							
Segment liabilities	3,615	25,167	998	29,780	-	-	29,780
Unallocated liabilities				2,871		-	2,871
Bank and other borrowings				60,405		-	60,405
Convertible bonds				8,328		-	8,328
Total liabilities				<u>101,384</u>		<u>-</u>	<u>101,384</u>

For the purposes of monitoring segment performances and allocating resources between segments, all assets are allocated to operating segments other than bank balances and cash and 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**

2012

	Continuing operations				Discontinued operation		
	Lottery- related services HK\$'000	Entertainment VAS HK\$'000	Others HK\$'000	Total HK\$'000	Boxes for storage of deceased cremated ashes and other ancestral properties HK\$'000	Total HK\$'000	Consolidated HK\$'000
Amounts included in the measure of segment profit or loss or segment assets:							
Additions to property, plant and equipment	869	192	4,206	5,267	–	–	5,267
Gain (loss) on disposal of property, plant and equipment	(6)	46	147	187	–	–	187
Allowances for doubtful receivable	–	–	–	–	–	–	–
Bad debts written off	775	–	84	859	–	–	859
Inventories written off	15	31	296	342	–	–	342
Impairment loss on available-for- sale financial assets	–	–	63,783	63,783	–	–	63,783
Impairment loss on goodwill	–	996,373	–	996,373	–	–	996,373
Depreciation and amortization	11,929	2,828	885	15,642	–	–	15,642

2011

	Continuing operations				Discontinuing operation		
	Lottery- related services HK\$'000	Entertainment VAS HK\$'000	Others HK\$'000	Total HK\$'000	Boxes for storage of deceased cremated ashes and other ancestral properties HK\$'000	Total HK\$'000	Consolidated HK\$'000
Amounts included in the measure of segment profit or loss or segment assets:							
Additions to property, plant and equipment	2,621	352	510	3,483	–	–	3,483
Loss on disposal of property, plant and equipment	(7)	(1,424)	–	(1,431)	–	–	(1,431)
Allowances for doubtful receivable	–	2,359	6,305	8,664	–	–	8,664
Bad debts written off	407	119	–	526	–	–	526
Inventories written off	30	–	102	132	–	–	132
Impairment loss on available-for- sale financial assets	–	–	7,693	7,693	–	–	7,693
Impairment loss on goodwill	–	63,964	–	63,964	–	–	63,964
Depreciation and amortization	11,169	4,710	1,076	16,955	50	50	17,005

(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 Continuing operations		Revenue from external customers Discontinued operation		Consolidated	
	2012	2011	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
PRC	104,714	112,591	–	–	104,714	112,591
Hong Kong	124	143	–	5,617	124	5,760
	<u>104,838</u>	<u>112,734</u>	<u>–</u>	<u>5,617</u>	<u>104,838</u>	<u>118,351</u>

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

	Carrying amount of segment assets		Additions to property, plant and equipment Capital expenditure	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
PRC	134,673	127,351	4,923	6,530
Hong Kong	109,844	1,165,186	344	291
	<u>244,517</u>	<u>1,292,537</u>	<u>5,267</u>	<u>6,821</u>

Revenue from major products and services

The Group's revenue from continuing and discontinued operations from its products were as follows:

	2012	2011
	HK\$'000	HK\$'000
Lottery-related services	53,985	60,054
Entertainment VAS	44,453	45,874
Boxes for storage of deceased cremated and other ancestral properties	–	5,617
Others	6,400	6,806
	<u>104,838</u>	<u>118,351</u>

(e) **Information about major customers**

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	The Group	
	2012	2011
	HK\$'000	HK\$'000
Customer A – Provision of entertainment VAS services	27,785	34,264
Customer B – Provision of lottery-related services	43,956	37,436

4. REVENUE AND OTHER REVENUE

The principal activities of the Group are (i) provision of lottery-related service, (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.

Revenue recognized during the year is as follows:

	Continuing operations		Discontinued operation		Consolidated	
	2012	2011	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue						
Provision of lottery-related hardware and software systems	53,985	60,054	–	–	53,985	60,054
Provision of entertainment VAS services	44,453	45,874	–	–	44,453	45,874
Sales of goods	25	58	–	–	25	58
Catering services	6,251	6,605	–	–	6,251	6,605
Distribution of natural supplementary products	124	143	–	–	124	143
Boxes of storage of deceased cremated ashes and other ancestral properties	–	–	–	5,617	–	5,617
	104,838	112,734	–	5,617	104,838	118,351

	Continuing operations		Discontinued operation		Consolidated	
	2012	2011	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other revenue						
Interest income	649	748	–	–	649	748
Investment income	–	134	–	–	–	134
Gain on deconsolidation of a subsidiary	–	–	–	183,339	–	183,339
Recovery of doubtful debts	–	95	–	–	–	95
Others	669	17,116	–	49	669	17,165
	<u>1,318</u>	<u>18,093</u>	<u>–</u>	<u>183,388</u>	<u>1,318</u>	<u>201,481</u>

5. FINANCE COSTS

	Continuing operations		Discontinued operation		Consolidated	
	2012	2011	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest on:						
– borrowings wholly repayable within five years	9,589	1,205	–	–	9,589	1,205
– convertible bonds	726	2,511	–	3,624	726	6,135
	<u>10,315</u>	<u>3,716</u>	<u>–</u>	<u>3,624</u>	<u>10,315</u>	<u>7,340</u>

6. LOSS BEFORE TAXATION

	Continuing operations		Discontinued operation		Consolidated	
	2012	2011	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss before taxation has been arrived at after charging:						
Staff costs (excluding Directors' emoluments):						
– Wages and salaries	36,106	30,228	–	1,153	36,106	31,381
– Retirement benefits scheme contributions	440	457	–	10	440	467
Total staff costs	36,546	30,685	–	1,163	36,546	31,848
Cost of inventories sold	37,933	39,464	–	758	37,933	40,222
Auditors' remuneration						
– Provide for the year	1,389	1,069	–	–	1,389	1,069
– (Over) under provision in prior year	(50)	42	–	–	(50)	42
Depreciation of property, plant and equipment	15,642	15,882	–	50	15,642	15,932
Impairment loss on goodwill	996,373	63,964	–	–	996,373	63,964
Impairment loss on other intangible assets	–	14,174	–	–	–	14,174
Impairment loss on available-for-sale financial assets	63,783	7,693	–	–	63,783	7,693
Loss (gain) on disposal of subsidiaries	2,606	(5,810)	–	–	2,606	(5,810)
Loss on disposal of available-for-sale financial assets	21	6,436	–	–	21	6,436
Minimum lease payments under operating leases:						
– Land and buildings	8,348	7,300	–	91	8,348	7,391
(Gain) loss on disposal of property, plant and equipment	(187)	1,431	–	–	(187)	1,431
Allowances for doubtful receivable	–	8,664	–	–	–	8,664
Amortization of other intangible assets	–	1,073	–	–	–	1,073
Gain on changes in fair value of derivative financial instruments	(116)	(1,666)	–	–	(116)	(1,666)
Bad debts written off	859	526	–	–	859	526
Inventories written off	342	132	–	–	342	132
Exchange losses, net	1,356	3,122	–	3	1,356	3,125

7. INCOME TAX EXPENSES

The amount of tax charged (credited) to the consolidated statement of comprehensive income represents:

	Continuing operations		Discontinued operation		Consolidated	
	2012	2011	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The charge comprises:						
Current year						
– Hong Kong Profits Tax	–	–	–	–	–	–
– Other jurisdiction	2,947	4,349	–	10	2,947	4,359
	<u>2,947</u>	<u>4,349</u>	<u>–</u>	<u>10</u>	<u>2,947</u>	<u>4,359</u>
Under (over) provision in prior years						
– Hong Kong Profits Tax	–	–	–	–	–	–
– Other jurisdiction	89	(32)	–	–	89	(32)
	<u>89</u>	<u>(32)</u>	<u>–</u>	<u>–</u>	<u>89</u>	<u>(32)</u>
Income tax expenses charged for the year	<u>3,036</u>	<u>4,317</u>	<u>–</u>	<u>10</u>	<u>3,036</u>	<u>4,327</u>

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group had no assessable profit derived in Hong Kong for both years.

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

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Company are exempted from PRC Enterprise Income Tax for the first two years commencing from their first profit making year of operation and thereafter, these PRC entities will be entitled to a 50% relief from PRC for the following three years (“Tax Preference”).

Entities that originally enjoy the Tax Preference can continue enjoying the Tax Preference based on the original tax rate until after the expiration of the Tax Preference. Entities that did not start Tax Preference before 2008 because they were still in loss position shall start the Tax Preference from 2008.

The amount of income tax expenses charged to the consolidated statement of comprehensive income reconciled to the (loss) profit per consolidated statement of comprehensive income is as follows:

	2012 HK\$'000	2011 <i>HK\$'000</i>
(Loss) profit before taxation:		
Continuing operations	(1,104,915)	(105,923)
Discontinued operation	–	178,414
	(1,104,915)	72,491
Tax at the Hong Kong Profits Tax rate	(182,311)	11,961
Tax concession	(708)	(437)
Tax effect of expenses that are not deductible for tax purposes	178,405	3,556
Tax effect of income that is not taxable for tax purposes	(6,137)	(21,325)
Tax effect of tax losses not recognized	12,160	10,494
Tax effect of utilization of tax losses previously not recognized	(11)	(1,237)
Effect of different tax rates of subsidiaries operating in other jurisdiction	1,575	1,082
Others	(26)	265
Tax effect of under (over) provision in prior years	89	(32)
Income tax expenses	3,036	4,327

Note: The applicable tax rate for Hong Kong is 16.5% (2011: 16.5%) and applicable tax rate in the PRC is 24-25% (2011: 22-25%).

At the end of the reporting period, the Group has unused tax losses of approximately HK\$75,994,000 (2011: approximately HK\$69,936,000) available for offset against future profits. No deferred tax asset has been recognized in respect of the unused tax losses due to the unpredictability of future profits streams. Deductible temporary differences have not been recognized in these financial statements owing to the absence of objective evidence in respect of the availability of sufficient taxable profits that are expected to arise to offset against the deductible temporary differences. Included in unused estimated tax losses are losses of approximately HK\$33,944,000 (2011: approximately HK\$28,075,000) that will expire within 2 to 4 years from the year origination. Other losses may be carried forward indefinitely.

The components of unrecognized deductible (taxable) temporary differences at the end of the reporting date are as follows:

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Deductible temporary differences:		
Unutilized tax losses	75,994	69,936
Others	7,645	4,563
Accelerated tax allowances	643	729
Taxable temporary differences:		
Accelerated tax allowances	—	—
	84,282	75,228

8. DIVIDENDS

No dividend was paid or proposed during the year ended 30 June 2012, nor has any dividend been proposed since the end of reporting date (2011: Nil).

9. DISCONTINUED OPERATION

By an announcement of the Company issued on 17 September 2010, the Directors of the Company had intention to dispose the Group's remaining equity interest in Hong Kong Life Group Holdings Limited (formerly known as Aptus Holdings Limited) ("HK Life") and HK Life ceased to be an indirect non wholly-owned subsidiary of the Company. In this regard, HK Life is considered to be a disposal group.

The combined results and cash flows of the discontinued operation due to deconsolidated of HK Life included in the consolidated statement of comprehensive income and the consolidated statement of cash flows are set out below:

	From 1 July 2010 to Date of Deconsolidation <i>HK\$'000</i>
Profit for the year from discontinued operation	
Revenue	5,666
Expenses	(10,591)
Gain on deconsolidation of a subsidiary	183,339
Profit before taxation	178,414
Income tax expenses	(10)
Profit for the year from discontinued operation	178,404
Cash flows from discontinued operation	
Net cash inflows from operating activities	81,857
Net cash outflows from investing activities	(76,148)
Net cash outflows from financing activities	(323)
Net cash inflows from discontinued operation	5,386

10. (LOSS) EARNINGS PER SHARE

From continuing operations and discontinued operation

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

	2012 HK\$'000	2011 HK\$'000
(Loss) profit for the year attributable to the equity holders of the Company	<u>(1,107,505)</u>	<u>61,439</u>
Number of shares		
	'000	'000
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	3,263,970	3,213,866
Effect of dilutive potential ordinary shares:		
Warrants	<u>—</u>	<u>19,490</u>
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	<u>3,263,970</u>	<u>3,233,356</u>

From continuing operations

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

	2012 HK\$'000	2011 HK\$'000
(Loss) profit for the year attribute to equity holders of the Company	(1,107,505)	61,439
Less: Profit for the year attributable to equity holders of the Company from discontinued operation	<u>—</u>	<u>178,404</u>
Loss for the purpose of basic loss per share from continuing operations	<u>(1,107,505)</u>	<u>(116,965)</u>

Outstanding share options and convertible bonds of the Company are anti-dilutive since their exercise or concession would result in a decrease in loss per share.

From discontinued operation

Basic earnings per share from discontinued operation is Nil cents per share (2011: HK5.55 cents per share), based on the profit for the year from the discontinued operation of approximately Nil (2011: profit of approximately HK\$178,404,000) and the denominators detailed above for basic earnings per share.

Diluted earnings per share from discontinued operation is Nil cents per share (2011: HK\$5.52 cents), based on the profit for the year from the discontinued operation of approximately Nil (2011: profit of approximately HK\$178,404,000) and weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share.

Outstanding share options and convertible bonds of the Company are anti-dilutive since their exercise or concession would result in a decrease in loss per share (2011: increase in earnings per share).

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Furniture, fixtures and equipment HK\$'000	Plant and machinery HK\$'000	Leasehold improvement HK\$'000	Motor vehicles HK\$'000	Computer equipment HK\$'000	Total HK\$'000
COST							
At 1 July 2010	1,297	21,227	51,714	3,559	7,824	4,740	90,361
Additions	–	914	1,807	369	342	51	3,483
Disposal	–	(4,315)	–	–	(564)	(1)	(4,880)
Reclassification	–	(144)	–	–	–	144	–
Exchange realignment	63	1,107	2,513	209	293	209	4,394
At 30 June 2011 and at 1 July 2011	1,360	18,789	56,034	4,137	7,895	5,143	93,358
Additions	–	1,036	–	3,442	412	377	5,267
Disposal	–	(172)	(10,986)	–	(377)	–	(11,535)
Disposal of subsidiaries	–	(382)	–	(3,383)	(55)	–	(3,820)
Exchange realignment	19	257	774	35	83	62	1,230
At 30 June 2012	1,379	19,528	45,822	4,231	7,958	5,582	84,500
DEPRECIATION							
At 1 July 2010	150	7,945	29,961	2,370	3,616	3,847	47,889
Charged for the year	41	3,921	9,657	539	1,457	267	15,882
Eliminated on disposal	–	(2,849)	–	–	(296)	(1)	(3,146)
Reclassification	–	(144)	–	–	–	144	–
Exchange realignment	8	501	1,691	165	195	186	2,746
At 30 June 2011 and at 1 July 2011	199	9,374	41,309	3,074	4,972	4,443	63,371
Charged for the year	43	3,177	10,484	545	1,272	121	15,642
Eliminated on disposal	–	(108)	(10,986)	–	(334)	–	(11,428)
Eliminated on disposal of subsidiaries	–	(11)	–	–	(2)	–	(13)
Exchange realignment	4	106	536	21	46	61	774
At 30 June 2012	246	12,538	41,343	3,640	5,954	4,625	68,346
NET BOOK VALUES							
AT 30 June 2012	<u>1,133</u>	<u>6,990</u>	<u>4,479</u>	<u>591</u>	<u>2,004</u>	<u>957</u>	<u>16,154</u>
At 30 June 2011	<u>1,161</u>	<u>9,415</u>	<u>14,725</u>	<u>1,063</u>	<u>2,923</u>	<u>700</u>	<u>29,987</u>

The leasehold land and buildings of the subsidiary is located in the PRC and held under medium lease term.

At 30 June 2012, none of the Group's property, plant and equipment was held under finance lease (2011:Nil).

12. INVENTORIES

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Raw materials and consumables	3,297	3,354
Finished goods	639	951
At 30 June	3,936	4,305

All inventories are stated at cost.

13. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Trade receivables	16,813	16,504
Other receivables and prepayments	29,164	23,443
	45,977	39,947
Less: Allowances for doubtful receivable	(2,434)	(10,012)
At 30 June	43,543	29,935

Payment terms with customers are mainly on credit. Invoices are normally payable within 180 days of issuance. The following is an aged analysis of trade receivables at the end of reporting dates:

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
0 to 30 days	5,756	13,763
31 to 60 days	1,483	38
61 to 365 days	9,421	1,491
Over 1 year	153	1,212
	16,813	16,504

The trade receivables with carrying amount of approximately HK\$10,876,000 (2011: approximately HK\$11,515,000) are neither past due nor impaired at the reporting date.

The Group has policies for allowances of bad and doubtful debts which are based on the evaluation of collectibility 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 2012, the Group made an allowance of Nil (2011: 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 allowance for bad and doubtful debts:

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Balance at the beginning of the year	10,012	6,118
Amount recovered during the year – trade receivables	–	(95)
Amount written off on disposal of a subsidiary	–	(4,675)
Amount written off	(7,610)	–
Charged for the year – other receivables	–	8,664
Exchange adjustments	32	–
Balance at the end of the year	<u>2,434</u>	<u>10,012</u>

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\$5,863,000 (2011: approximately HK\$3,989,000) 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 fair value of the Group's trade receivables as at 30 June 2012 approximates to the corresponding carrying amount.

14. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2012 HK\$'000	2011 HK\$'000
Listed investments:		
– Equity securities listed in Hong Kong (<i>Note a</i>)	3	8,053
Unlisted investments:		
– Unlisted equity securities (<i>Note b</i>)	63,780	63,780
	<u>63,783</u>	<u>71,833</u>
Less: Impairment loss	<u>(63,783)</u>	<u>(7,693)</u>
At 30 June	<u><u>–</u></u>	<u><u>64,140</u></u>

- (a) By considering that there was a significant decline in the fair value of the listed equity securities below its cost, the change in fair value is considered to be objective evidence of impairment and charged to profit or loss directly. During the year ended 30 June 2012, impairment loss of approximately HK\$3,000 has been made (2011: approximately HK\$7,693,000).
- (b) Unlisted investment represents investment in an unlisted equity securities issued by a private entity incorporated in the PRC. The Group holds 9.99% of shareholding right. In the opinion of the directors, the Group is unable to exercise significant influence on the financial and operation of the investee, therefore, the investment is classified as available-for-sale financial asset.

The unlisted investment is measured at cost less impairment at the end of the reporting date because the range of reasonable fair value estimates is so significant that the directors of the Company are in the opinion that its fair value cannot be measured reliably. During the year ended 30 June 2012, impairment loss of approximately HK\$63,780,000 had been made. (2011: Nil).

15. TRADE PAYABLES, ACCRUED LIABILITIES AND OTHER PAYABLES

	2012 HK\$'000	2011 HK\$'000
Trade payables	32,259	17,888
Accrued liabilities and other payables	<u>29,001</u>	<u>13,357</u>
At 30 June	<u><u>61,260</u></u>	<u><u>31,245</u></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:

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
0 to 30 days	716	2,566
31 to 120 days	21,212	8,106
121 to 180 days	310	1,947
181 to 365 days	8,965	4,978
Over 1 year	1,056	291
At 30 June	32,259	17,888

The fair value of the Group's trade payables, accrued liabilities and other payables as at 30 June 2012 approximates to the corresponding carrying amount.

Included in other payables, there was an amount of approximately HK\$584,000 (2011: Nil) due to a director.

16. BANK AND OTHER BORROWINGS

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Bank loan, secured (<i>Note a</i>)	–	5,000
Other loan, secured (<i>Note b</i>)	20,000	–
Other loans, unsecured (<i>Note c</i>)	74,331	45,827
Bank overdraft, secured (<i>Note d</i>)	12,419	9,578
At 30 June	106,750	60,405

Bank and other borrowings are repayable as follows:

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
On demand or within one year	32,419	60,405
One to two years	74,331	–
	106,750	60,405
Less: Amounts shown under current liabilities	(32,419)	(60,405)
Long term portion	74,331	–

Notes:

- (a) Bank loan of Nil (2011: HK\$5,000,000) is interest bearing at 2.5% per annum over 12-month Hong Kong Interbank Offered Rate (“HIBOR”), secured by guarantee issued by bank and repayable in next twelve months.
- (b) Other loan of HK\$20,000,000 (2011: Nil) is interest bearing at 20% per annum, secured by pledge of shares of a subsidiary and repayable in next twelve months.
- (c) Other loans of approximately HK\$74,331,000 (2011: approximately HK\$45,827,000) is interest bearing at 12% per annum (2011: Nil), unsecured and repayable on 30 June 2014.
- (d) Bank overdraft of approximately HK\$12,419,000 (2011: approximately HK\$9,578,000) is interest charged at 5.25% (2011: 7%) per annum, secured by pledge bank deposit and corporate guarantee by the Company.

17. CONVERTIBLE BONDS

The Company adhered the convertible bonds issued by its wholly-owned subsidiary, Grand Promise International Limited (“GPIL Bonds” and “GPIL” respectively) on 11 April 2008 with a principal amount of US\$35,000,000. The convertible bonds are denominated in United States Dollar.

The convertible bonds contain two components: liability component and conversion option derivative. The conversion option derivative is measured at fair value with changes in fair value recognized in profit and loss.

Detail of principal valuation parameters have been applied in determining the liability component and conversion option derivative of GPIL Bonds as at 30 June 2012 and 30 June 2011 was summarized as follows:

	2012	2011
(a) Principal amount:	US\$709,596	US\$925,000
(b) Principal repayment:	141.06% of principal amount	141.06% of principal amount
(c) Coupon rate:	0%	0%
(d) Expected life:	0.42 years	1.42 years
(e) Discount rate:	16.38%	16.38%
(f) Conversion price:	HK\$0.8	HK\$0.8
(g) Risk-free rate:	0.10%	0.20%
(h) Expected volatility:	87.58%	80.39%
(i) Expected dividend yield:	0%	0%

Fair value of conversion option derivative as at 30 June 2012 was valued by an independent professional valuer.

With regards to the GPIL Bonds, the Group and the GPIL Bond holders have undergone a series of amendments and undertaking during Year 2011 in order to give all parties adequate time to reach acceptable restructuring terms.

GPIL Bond previously issued to Liberty Harbor Master Fund I, L.P. (“LH GPIL Bond”)

On 29 July 2010, the LH GPIL Bonds with an outstanding principal amount of US\$1,850,000 was sold to Tarascon Asia Absolute Fund (Cayman) Limited (“Tarascon” and “TA GPIL Bonds” respectively). As a result of GPIL, Precise Result Profits Limited (“Precise Result”) and the Company provided certain undertakings to Tarascon, including payment of step up fees, pledging of shares in HK Life and the issuance of 10,000,000 warrants, Tarascon undertook not to exercise the redemption option until 31 December 2010. On 30 December 2010, the TA GPIL Bond with an outstanding principal amount of US\$925,000 was sold to Capital Day Investments Limited (“Capital Day” and “CD GPIL Bond” respectively). As a result of GPIL and the Company provided certain undertakings to Capital Day, including payment of step up fees, Capital Day undertook not to exercise the redemption option until 28 November 2012, being the maturity date of the CD GPIL Bond.

GPIL Bond previously issued to Evolution Master Fund Ltd. SPC (“Evo M Fund” and “EMF GPIL Bond” respectively)

As a result of GPIL, Precise Result and the Company provided certain undertakings to Evo M Fund, including payment of step up fees, pledging of shares in HK Life and the issuance of 30,000,000 warrants, Evo M Fund undertook not to exercise the redemption option until 31 December 2010. On 30 December 2010, the EMF GPIL Bond with an outstanding principal amount of US\$2,114,000 was sold to Evo Fund (“Evo Fund” and “EF GPIL Bond” respectively). As a result of GPIL, Precise Result and the Company provided certain undertakings to Evo Fund, including payment of step up fees, pledging of shares in HK Life and the issuance of 30,000,000 warrants, and Best Frontier Investments Limited (being a substantial shareholder of the Company) pledging a total of 1,010,022,757 shares of the Company to Evo Fund (“BF Pledge”), Evo Fund undertook not to exercise the redemption option until 31 March 2011. On 23 February 2011 the EF GPIL Bond was redeemed in full and the BF Pledge was terminated.

The movement of the liability component and conversion option derivative of the convertible bonds for the year is set out as below:

	Conversion option derivative component <i>HK\$'000</i>	Liability component <i>HK\$'000</i>
At 1 July 2011	143	8,185
Imputed finance cost	–	726
Exchange differences	–	107
Changes in fair value	(116)	–
Early redemption	(27)	(1,653)
At 30 June 2012	–	7,365
	<i>(Note a)</i>	<i>(Note b)</i>

Note a: Recorded in current liabilities as derivative financial instruments.

Note b: Total of approximately of HK\$7,365,000 (2011: Nil) is recorded as current liabilities and Nil (2011: approximately HK\$8,185,000) is recorded as non-current liabilities.

18. GOODWILL

	Entertainment VAS services HK\$'000	Lottery- related services HK\$'000	Profit sharing on oil field HK\$'000	Trading of edible oil HK\$'000	Total HK\$'000
COST					
At 1 July 2010	2,016,496	94,431	31,761	3,361	2,146,049
Acquisition of a subsidiary	–	44	–	–	44
Eliminated on deconsolidation of a subsidiary	–	–	(31,761)	(3,361)	(35,122)
At 30 June 2011, 1 July 2011 and at 30 June 2012	2,016,496	94,475	–	–	2,110,971
IMPAIRMENT					
At 1 July 2010	956,159	–	31,761	3,361	991,281
Impairment loss recognized for the year	63,964	–	–	–	63,964
Eliminated on deconsolidated of a subsidiary	–	–	(31,761)	(3,361)	(35,122)
At 30 June 2011 and at 1 July 2011	1,020,123	–	–	–	1,020,123
Impairment loss recognized for the year	996,373	–	–	–	996,373
At 30 June 2012	2,016,496	–	–	–	2,016,496
CARRYING VALUES					
At 30 June 2012	–	94,475	–	–	94,475
At 30 June 2011	996,373	94,475	–	–	1,090,848

The Group tests goodwill annually for impairment in the financial year in which the acquisition takes place, or more frequently if there is indications that goodwill might be impaired.

For the year ended 30 June 2012, the Group recognized an impairment loss of approximately HK\$996,373,000 (2011: approximately HK\$63,964,000) in relation to goodwill arising on Entertainment VAS services business.

The recoverable amounts from cash generating units (“CGUs”) are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the year. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

(a) Entertainment VAS Services

On 22 June 2011, a joint venturer of Entertainment VAS services business started arbitration proceeding in Beijing, the PRC against the Group’s jointly controlled entity for operation of Entertainment VAS services business. On 30 July 2012, the Company received arbitration decision as follows:

- (a) to terminate of a joint venture agreement dated 15 July 2007; and
- (b) to terminate the share transfer agreement signed on August 2007 and the return of 20% interest in the joint venture business which was transferred from the joint venturer to the Group’s jointly controlled entity, China Culture Development Digital Technology Co., Limited (“CCDDT”).

In determining the recoverable amount of the goodwill regarding the provision of entertainment VAS services, the directors of the Company have taken the assumptions that the operation of the provision of entertainment VAS services would be adversely affected by the arbitration decision together with unfavorable result of operations for early termination of joint venture agreement in accordance with the arbitration decision.

The key assumption used for cash flow projection for the entertainment VAS services is as follows:

	Year				
	2013	2014	2015	2016	2017
Growth rate	15%	10%	10%	10%	10%
Discount rate	18%	18%	18%	18%	18%

Cash flows beyond the five years period are extrapolated using the growth rate of 5%.

As a result, impairment loss of approximately HK\$996,373,000 was provided on goodwill from provision of entertainment VAS services.

(b) Lottery-related Services

The key assumption used for cash flow projection for the provision of lottery-related services is as follows:

	2013	2014	Year 2015	2016	2017
Growth rate	20%	20%	20%	20%	20%
Discount rate	10%	10%	10%	10%	10%

Cash flows beyond the five years period are extrapolated using the estimated growth rate of 10%.

19. RELATED PARTY TRANSACTIONS

Compensation of directors and key management personnel

The remuneration of directors and other members of key management during the year were as follows:

	2012 HK\$'000	2011 HK\$'000
Short term benefits	12,388	12,363
Post-employment benefits	119	99
	12,507	12,462

Balance with related party

Balance with related party is disclosed in note 15 to the consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Results

The Group achieved operating revenue of HK\$105 million for year ended 30 June 2012 (“Year 2012”), a decrease of 7% from the last corresponding year (“Year 2011”) of HK\$113 million. Loss attributable to equity holders for Year 2012 was HK\$1,108 million, HK\$1,060 million of which were due to extraordinary losses. Impairment of goodwill amounted to HK\$996 million and impairment of available-for-sale financial assets amounted HK\$64 million. The Group core operating cost amounted to HK\$100 million in Year 2012, a decrease of 8% from Year 2011 of HK\$109 million. The Group operating loss factoring out other revenue amounted to HK\$33 million in Year 2012, a decrease of 8% from HK\$36 million in Year 2011. The Group recurrent operating cost and operating loss have declined 8% as compared with the last corresponding year.

The Group’s operating revenue decreased by 7% in Year 2012 to HK\$105 million, 51% of the Group’s revenue was derived from the lottery-related business which decreased by 10% to HK\$54 million as compared to Year 2011. Entertainment VAS operations contributed to another 42% of the Group’s operating revenue and decreased by 3% to HK\$44 million in Year 2012.

Revenue	2012 HK\$’000	2011 HK\$’000	Change
Lottery-related	53,985	60,054	(10%)
Entertainment value added services (“VAS”)	44,453	45,874	(3%)
Others	6,400	6,806	(6%)
	104,838	112,734	(7%)

The details of gross profit and gross profit ratio of the Group are as follows:

Gross Profit	2012		2011		Change	
	Gross Profit HK\$’000	Ratio	Gross Profit HK\$’000	Ratio	Gross Profit	Ratio
Lottery-related	49,663	92%	54,913	91%	(10%)	1%
Entertainment VAS	16,432	37%	17,477	38%	(6%)	(1%)
Others	810	13%	880	13%	(8%)	–
	66,905	64%	73,270	65%	(9%)	(1%)

The Group's gross profit decreased by 9% year on year in Year 2012 to HK\$67 million. The Group's gross profit ratio was stable at 64% in Year 2012 as compared with 65% in Year 2011.

The Group's operating costs comprising selling and distribution costs and administrative expenses, decreased by 8% to HK\$100 million.

The finance costs for Year 2012 increased by 178% to HK\$10 million from HK\$4 million recorded in Year 2011. The increase of finance costs in Year 2012 was due to an increase in bank and other borrowings by HK\$46 million to HK\$107 million for financing of acquisition of non-controlling interests of subsidiaries and new projects of the Group.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

As at 30 June 2012, shareholders' funds amounted to HK\$67 million (2011: HK\$1.2 billion). Current assets amounted to HK\$134 million (2011: HK\$108 million), mainly comprising of bank balances and cash, trade and other receivables and prepayments. Current liabilities amounted to HK\$103 million (2011: HK\$93 million) mainly comprising of its trade and other payables and bank and other borrowings. In particular, the Group has bank borrowings of about HK\$12 million (2011: HK\$15 million).

The Group financed its operations primarily with internally generated cash flows, and banking facilities granted by banks. The net asset value per share of the Group was about HK\$0.02 (2011: about HK\$0.4). The gearing ratio of the Group was 111% (2011: 0.7%) on the basis of non-current liabilities divided by shareholders' funds.

CONVERTIBLE BONDS

As disclosed during Year 2011, the Company and the holders of the convertible bonds, from time to time, issued by Grand Promise International Limited ("GPIL Bonds" and "GPIL" respectively), a wholly-owned subsidiary of the Group, entered into various amendment and undertaking agreements for the repayment and restructuring of the amount payable under the GPIL Bonds. A total of HK\$1.7 million was repaid during Year 2012 and the outstanding principal amount of the GPIL Bonds as at 30 June 2012 were US\$710,000.

CONTINGENT LIABILITIES

As at 30 June 2012, the Group had no contingent liabilities (as at 30 June 2011: nil).

CHARGES ON GROUP ASSETS

As at 30 June 2012, the Group has pledged all of the issued and outstanding shares of Birdview Group Limited together with all proceeds in favour of the holders of the GPIL Bonds.

As at 30 June 2012, the Group has pledged its bank deposits of about HK\$5 million (30 June 2011: HK\$5 million) to a bank to secure the general banking facilities granted to the Group.

As at 30 June 2012, the Group has pledged all issued and outstanding shares of China Success Enterprises Limited and its subsidiaries except Ace Bingo Group Limited and its subsidiaries to Tarascon Asia Absolute Fund (Cayman) Limited to secure a loan to the Group.

WARRANTS

On 26 August 2010 the Company issued an aggregate of 40,000,000 warrants at the exercise price of HK\$0.168 per share to the then holders of the GPIL Bonds expiring on 26 August 2011, which were exercised in full in August 2011.

On 11 January 2011 the Company issued 30,000,000 warrants at the exercise price of HK\$0.168 per share to the then holder of the GPIL Bonds. During the year, 10,000,000 warrants have been exercised and the 10,000,000 warrants remained unexercised and expired on 11 January 2012.

CAPITAL STRUCTURE

During the year ended 30 June 2012, 50,000,000 shares were issued due to the exercise of warrants and nil share was cancelled due to repurchase of shares by the Company. As of 30 June 2012 the Company has in issue a total of 3,271,893,839 ordinary shares with a par value of HK\$0.01 each (2011: 3,221,893,839 ordinary shares).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

No significant exchange risk is expected as the Group's cash, borrowings, income and expenses are settled in Hong Kong dollars ("HK\$"), Renminbi ("RMB") or United States dollar ("US\$"). The Group's major investment and financing strategies are to invest in domestic projects in the PRC by RMB, Hong Kong dollars and US dollars borrowings. As the exchange rate of RMB against Hong Kong dollars 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 year. Nevertheless, the Group will from time to time review and adjust the Group's investment and financing strategies based on the RMB, US dollars and Hong Kong dollars exchange rate movement.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

In July 2011, the Group completed the acquisition of 49% and 1% interests in Cheerfull Group Holdings Limited and Shenzhen Longjiang Fengcai IT Co. Ltd for cash consideration of HK\$27.2 million and RMB252,100 (approximately HK\$303,000) respectively. Upon completion of the acquisition, the Group increased its ownership from 51% to 100% and 99% to 100% respectively.

In June 2012, the Group contributed HK\$9,240,000 (approximately RMB7,500,000, equivalent to 15% of the registered capital) into the new non-wholly owed subsidiary Guizhou Dalong China Vanguard Development Company Limited by cash.

Except for the above, the Group did not make any material acquisition or disposal of subsidiaries and affiliated companies during the year ended 30 June 2012.

EMPLOYMENT AND REMUNERATION POLICIES

As at 30 June 2012, the Company and its subsidiaries employed 34 staff in Hong Kong (2011: 30), and 174 staff in the PRC (2011: 176); and the Group's jointly controlled entities employed 236 staff in the PRC (2011: 564). Staff costs excluding directors' remuneration amounted to about HK\$37 million (2011: about HK\$31 million). Employee remuneration is determined by reference to market terms and the performance, qualification and experience of individual employees. In addition to basic salaries and provident fund contributions, the Group also offers medical benefits and training programs. Share options may be granted to employees based on performance evaluation in order to provide incentives and rewards.

BUSINESS REVIEW

Lottery-related operations

Shenzhen Bozone IT Co., Ltd. ("Bozone") is the Group's traditional lottery-related operation flagship, it offers a variety of lottery-related software, equipment and services for provision to the Welfare Lottery Authorities in China. In July 2011, we completed the buyout of Bozone minorities lifting the Group's ownership of these operations from 51% to 100%. Revenue from the lottery-related operations amounted to HK\$54 million for Year 2012, a decrease of about 10% compared to HK\$60 million for Year 2011. This reduction in revenue was due predominantly to the expiry of a small lottery related side contract.

In a significant development, in March 2012 the Group entered into a cooperation agreement with the Tianjin Welfare Lottery Issuing Centre authorizing Bozone to establish self service sales systems and touchscreen terminals for the sale of selected welfare lottery ("Welfare Lottery") products in their jurisdiction. The system and terminals, designed and installed by Bozone enables high frequency Welfare Lottery game play on individual touchscreen terminals with credits and debits going to an individual stored value card. Bozone can install the system into venues designated by

the Tianjin Welfare Lottery Issuing Centre which include, but are not limited to, existing Welfare Lottery stores, karaoke venues, cafés and other entertainment venues and by way of specialty stores which Bozone establishes and operates. Bozone will receive a certain percentage of the sales amount generated on the system as sales commission. The first game being offered on the system is the high payout and rapid draw lottery game, currently existing in Tianjin. Bozone can add other high payout and rapid draw lottery games to the self service sales system in future.

Lottery outlets

As can be seen from the Tianjin contract, our game, software and hardware knowhow has facilitated our downstream move into establishment of point of sales (“POS”) outlets for lottery products. The Group hopes to replicate its success in Tianjin and is looking to sign similar contracts in other jurisdictions to install our self service sales system and touchscreen terminals for high frequency games into multiple types of venues not only existing Welfare Lottery venues such as traditional lottery stores but also specialty stores as well as new channels such as cafés and karaoke and other entertainment venues.

Entertainment royalty collection operations

Revenue from China Culture Development Digital Technology Co., Ltd. (“CCDDT”) amounted to HK\$44 million for Year 2012, a decrease of about 3% compared to HK\$46 million for Year 2011. Whilst the CCDDT Group now has operations in 30 of China’s 31 jurisdictions these operations have not grown as we had hoped. Effective management of CCDDT’s 50% owned royalty collection arm Excellent Union was hampered by a dispute between it and the other 50% owner, Shenzhen Hua Rong Sheng Shi Investment Management Company Limited (“Shenzhen Huarong”). As a result, China Vanguard has decided to writedown HK\$996 million, equivalent to all the remaining goodwill on our statement of financial position associated with the CCDDT acquisition.

As mentioned in last year’s annual report the impasse between CCDDT and Shenzhen Huarong boiled over into arbitration on 22 June 2011 in Beijing, the PRC. On 30 July 2012, it was ruled that the share transfer agreement between CCDDT and Shenzhen Huarong be terminated resulting in CCDDT’s interest in Excellent Union declining from 50% to 30%. *The impact of the Excellent Union stake reduction is unlikely to be significant as Excellent Union is loss making. Meanwhile, on 27 August 2012 the Company announced that we had decided not to extend the acquisition agreement to raise our stake in China Culture Development Co., Ltd. (CCDDT’s parent) and that the acquisition agreements had automatically lapsed.

* *Information on the CCDDT arbitration and the CCD acquisition has been paraphrased from their respective announcements dated 8 August 2012 and 27 August 2012. If there is any ambiguity between the above and the announcements, the announcements should be treated as definitive.*

Industrial estate project in Guizhou[#]

In March 2012, the Group entered into an agreement to establish a non-wholly owned property subsidiary (“Property Subsidiary”) to assist in the development of the Guizhou Dalong Economic Development Zone (the “Zone”) in Guizhou Province. The agreement was signed with the Guizhou Dalong Economic Development Zone Management Committee (the “Committee”), which is responsible for the overall management of the Zone, and Guizhou Dalong Huiyuan Development Investment Company Limited (“Huiyuan”), a wholly owned subsidiary of the Committee.

Pursuant to the agreement, the Group will have board control and a 34% stake in the Property Subsidiary which will carry out and finance development work such as landscaping and infrastructure on land in the Zone and share in profits from the sale of the land which it helps to develop. The total area which can be developed by the Property Subsidiary under the agreement is approximately 30km², of which circa 21km² would be industrial land and circa 9km² would be commercial/residential land. The Committee undertakes that the Property Subsidiary will earn no less than a 2% return on its land development costs for any land developed by it. Meanwhile, if any land is sold at over this 2% return, then the Property Subsidiary will receive a 45% share after its land development costs, taxes and other requisite deductions are made.

In July 2012 the Group gained financing to make its fully equity contribution to the Property Subsidiary. We are now establishing our operations within the Zone, setting up our offices, hiring staff and working diligently with our partners and Zone Authorities. Further, with the support of Zone Authorities we are working on getting significant funding from banks.

	Industrial Land	Commercial Land	Total Land
Phase 1	3km ² (4,500 mou)	2km ² (3,000 mou)	5km ² (7,500 mou)
Phase 2	6km ² (9,000 mou)	At least 2.4km ² (3,600 mou)	At least 8.4km ² (12,600 mou)
Phase 3	12km ² (18,000 mou)	At least 4.8km ² (7,200 mou)	At least 16.8km ² (25,200 mou)
Total	21km ² (31,500 mou)	At least 9.2km ² (13,800 mou)	At least 30.2km ² (45,300 mou)

[#] Information on the Property Subsidiary has been paraphrased from its announcement dated 4 March 2012. If there is any ambiguity between the above and the announcement, the latter should be treated as definitive.

Future Outlook and Prospects

We are optimistic about the outlook for our lottery operations. We have and will continue to enhance our position in the fast growing China lottery industry thru driving our software system, game and product feature and range development as well as expanding and diversifying out our POS network.

Our upgraded traditional software and equipment solutions, new games and touchscreen self service equipment have increased the range of products we can offer our clients in the jurisdictions which we have already operated and enhanced our competitiveness to secure new territories from our competitors. We are optimistic that we can secure more territories.

Meanwhile, our technological knowhow and product line has successfully spearheaded our entry into the karaoke lottery market in Chongqing and the self service sales system and terminal market and POS market in Tianjin. Following on from our platform, game, venue format and promotional optimisation in Chongqing, we are on target to commence rollout to karaoke venues in Chongqing in the latter part of this calendar year. An additional Welfare Lottery Centre is now collaborating with us to explore the selling of high-frequency games through different channels including karaoke venues in their jurisdiction. We are working hard to collaborate with more Welfare Lottery Issuing Centres in a similar vein. We are also working hard to promote our self service sales system and terminals for high and low frequency games in other jurisdictions.

With regards the Property Subsidiary, 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. Further, given the Committee's undertaking to ensure a return of 2% on costs for land developed by the Property Subsidiary, the Zone represents a low risk and potentially high return proposition.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the articles of association of the Company ("Articles of Association") or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

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

Neither the Company, nor any its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 30 June 2012.

COMPETING INTERESTS

None of the Directors or the controlling shareholders of the Company or any of their respective associates (as defined in the Rules Governing the Listing of Securities on the Growth Market Enterprise of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules")) had any business that competed or might compete with the business of the Group.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 30 June 2012.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 5 November 2012 to Tuesday, 6 November 2012 (both dates inclusive), during which period no transfer of shares of the Company will be registered. In order to be entitled to attend and vote at the forthcoming annual general meeting, all transfer of shares of the Company accompanied by the relevant share certificates and appropriate transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Tricor Standard Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 2 November 2012.

CORPORATE GOVERNANCE PRACTICE

During the year ended 30 June 2012, the Company has complied with the code provisions in the code on corporate governance practices in Appendix 15 of the GEM Listing Rules ("Code"), except for one major deviation described below:

Under code provision A.4.1 of the Code, Non-Executive Directors should be appointed for a specific term, subject to re-election. The Independent Non-Executive Directors ("INEDs") of the Company were not appointed for a specific term but are subject to retirement by rotation in annual general meeting of the Company at least once every three (3) years in accordance with the Articles of Association.

SECURITIES TRANSACTIONS OF DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors ("Code of Conduct") on terms on less exactly than the required standard set out in Rules 5.48 to 5.67 of GEM Listing Rules. Having made specific enquiry of all Directors, the Company received confirmation from all Directors that they had complied with the Code of Conduct throughout the year ended 30 June 2012.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based upon the guidelines published by the Hong Kong Institute of Certified Public Accountants. 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 audit committee consisted of four Independent Non-executive Directors, namely Mr. Zhang Xiu Fu, Mr. Tian He Nian, Mr. Yang Qing Cai and Mr. To Yan Ming Edmond. Mr. To Yan Ming Edmond is the chairman of the audit committee.

The Group's audited results for the year ended 30 June 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. Four meetings were held during the current financial year.

The audit committee reviewed the Group's audited results for the year ended 30 June 2012 with management and the Company's external auditors and recommended its adoption by the Board.

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

Hong Kong, 21 September 2012

As at the date of this announcement, the board of directors of the Company comprises six executive directors, being Madam Cheung Kwai Lan, Mr. Chan Ting, Mr. Wang Yong Chun, Ms. Chan Siu Sarah, Mr. Chan Tung Mei and Mr. Lau Hin Kun; and four independent non-executive directors, being Mr. Zhang Xiu Fu, Mr. Tian He Nian, 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 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