

ThinSoft

THINSOFT (HOLDINGS) INC
博軟(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 8096)

The background features a large yellow circle on the left and a large blue circle on the right. The blue circle contains a grid pattern and is overlaid with a complex network of white and light blue lines. A green circle is partially visible at the bottom, and an orange circle is partially visible at the top right.

Third Quarterly Report
2010

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 and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors of ThinSoft (Holdings) Inc collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to ThinSoft (Holdings) Inc. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

RESULTS

The board of directors of ThinSoft (Holdings) Inc (the "Company") presents the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months and nine months ended 30 September 2010 together with the comparative figures for the corresponding periods in last financial year.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	For the three months ended 30 September		For the nine months ended 30 September	
		2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Revenue	2	1,448	2,341	6,756	7,913
Cost of sales		(23)	(9)	(69)	(94)
Gross profit		1,425	2,332	6,687	7,819
Other income	2	2	157	6	478
Selling and distribution expenses		(134)	(152)	(420)	(485)
General and administrative expenses		(4,641)	(3,685)	(12,492)	(11,465)
Provision for impairment loss of available-for-sales financial assets		-	-	-	(736)
(Loss) before tax		(3,348)	(1,348)	(6,219)	(4,389)
Income tax recovered/(expenses)	3	11	(78)	(69)	(209)
(Loss) for the period		(3,337)	(1,426)	(6,288)	(4,598)
Other comprehensive income:					
Fair value adjustment recognised in the period		(603)	2,410	(1,666)	4,224
Currency translation differences		587	180	611	171
Other comprehensive (loss)/income for the period		(16)	2,590	(1,055)	4,395
Total comprehensive (loss)/income for the period		(3,353)	1,164	(7,343)	(203)
Loss attributable to equity holders of the Company		(3,337)	(1,426)	(6,288)	(4,598)
Total comprehensive (loss)/income attributable to equity holder of the Company		(3,353)	1,164	(7,343)	(203)
Loss per share attributable to the equity holder of the Company	5				
- basic		HK\$(0.127) cent	HK\$(0.056) cent	HK\$(0.241) cent	HK\$(0.183) cent

NOTES

1. Principal accounting policies and basis of preparation

1.1 Basis of preparation

The unaudited consolidated financial information for the nine months ended 30 September 2010 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2009, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA.

1.2 Accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2009, as described in those annual financial statements.

Taxes on income in the periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2010 but does not have a material impact on the Group.

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 January 2010 and have not been early adopted:

- HKFRS 9, “Financial Instruments”.
- HKAS 24 (revised), “Related party disclosures”.
- Amendment to HKFRS 32, “Clarification of right issue”.
- Amendment to HK(IFRIC) 14, “Prepayment of a minimum funding requirement”.
- HK(IFRIC) 19, “Extinguishing financial liabilities with equity instruments”.
- HKFRS 1 (revised), “First-time adoption of HKFRS”.
- HKFRS 3 (revised), “Business combinations” and consequential amendments to HKAS 27, “Consolidated and separate financial statements”, HKAS 28, “Investments in associates” and HKAS 31, “Interests In joint ventures”.
- HK(IFRIC) 17, “Distributions of non-cash assets to owners”.
- HK(IFRIC) 18, “Transfers of assets from customers”.
- Amendment to HKFRS 1, “Additional Exemptions for First-time Adopters”.
- Amendment to HKFRS 2, “Group cash-settled share-based payment transactions”.
- Amendment to HKFRS 5, “Non-current Assets held for sale and discontinued operations”.
- Amendment to HKFRS 8, “Operating segments”.

- Amendment to HKAS 1, "Presentation of financial statements".
- Amendment to HKAS 7, "Statement of cash flows".
- Amendment to HKAS 17, "Leases".
- Amendment to HKAS 18, "Revenue".
- Amendment to HKAS 36, "Impairment of assets".
- Amendment to HKAS 38, "Intangible assets".
- Amendment to HKAS 39, "Financial instruments: recognition and measurement".
- Amendment to HK(IFRIC) 9, "Reassessment of embedded derivatives".
- Amendment to HK(IFRIC) 16, "Hedges of a net investment in a foreign operation".

2. Revenue and other income

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services rendered in the ordinary course of the Group's activities. Revenue is shown net of allowance for return and trade discounts, and applicable goods and services taxes and after eliminating sales within the Group.

An analysis of the Group's revenue and other income is as follows:

	For the three months ended 30 September		For the nine months ended 30 September	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Revenue:				
Sale of goods	1,448	2,341	6,756	7,913
Other income:				
Interest income	2	157	6	478
	1,450	2,498	6,762	8,391

3. Income tax expenses

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profits arising in Hong Kong during the period (2009: Nil).

ThinSoft Pte Ltd, a wholly-owned subsidiary incorporated in Singapore, is subject to Singapore income tax. Singapore income tax has been provided at the rate of 18% (2009: 18%) on the estimated assessable profits arising in Singapore.

4. Dividends

No dividend has been paid or declared by the Company or any of the companies comprising the Group during the nine months ended 30 September 2010 (2009: Nil).

5. Loss per share

	Ordinary shares of HK\$0.05 each		Ordinary shares of HK\$0.01 each	
	No. of shares	HK\$	No. of shares	HK\$
<i>Authorised:</i>				
At 30 September 2009	2,000,000,000	100,000,000	–	–
Share subdivision (<i>Note a</i>)	(2,000,000,000)	(100,000,000)	10,000,000,000	100,000,000
At 30 September 2010	–	–	10,000,000,000	100,000,000
<i>Issued and fully paid:</i>				
At 30 September 2009	501,255,000	25,062,750	–	–
Reduction of par value of ordinary shares due to share subdivisions (<i>Note a</i>)	(501,255,000)	(25,062,750)	2,506,275,000	25,062,750
Issuance of new shares (<i>Note b</i>)			120,000,000	1,200,000
At 30 September 2010	–	–	2,626,275,000	26,262,750

Note a:

Pursuant to an ordinary resolution passed on 4 November 2009, each of the existing issued and unissued ordinary shares of HK\$0.05 each in the share capital of the Company was subdivided into five ordinary shares of HK\$0.01 each (the "Share Subdivision"), which was approved by the shareholders of the Company and became effective on 5 November 2009.

Note b:

Pursuant to the announcement dated 2 February 2010, 120,000,000 ordinary shares were issued and subscribed. After the completion of the subscription, there were 2,626,275,000 shares in issue.

The basic earnings per share for the three months and nine months ended 30 September 2010 are calculated by dividing the loss for the period attributable to ordinary equity holders of the Company of HK\$3,337,000 (2009: Loss of HK\$1,426,000) and HK\$6,288,000 (2009: Loss of HK\$4,598,000) by the weighted average number of 2,626,275,000 (2009: 2,506,275,000) and 2,611,769,505 (2009: 2,506,275,000) ordinary shares in issue during the corresponding period.

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. During the period ended 30 September 2010 and 2009, there were no potential dilutive ordinary shares outstanding. As a result, the diluted loss per share is the same as basic loss per share.

6. Reserves

	Share capital HK\$'000	Share Premium HK\$'000	Capital Reserve HK\$'000	Currency Translation HK\$'000	Available- for-sale- financial assets HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance at 1 January 2009	25,063	11,347	6,840	3,624	-	(13,031)	33,843
Loss for the period	-	-	-	-	-	(3,171)	(3,171)
Other comprehensive income/(loss)							
Revaluation surplus on available-for-sales financial assets	-	-	-	-	1,814	-	1,814
Currency translation differences	-	-	-	(9)	-	-	(9)
Total comprehensive income/(loss) for the period ended 30 June 2009	-	-	-	(9)	1,814	(3,171)	(1,366)
Balance at 30 June 2009	25,063	11,347	6,840	3,615	1,814	(16,202)	32,477
Loss for the period	-	-	-	-	-	(1,426)	(1,426)
Other comprehensive loss							
Revaluation surplus on available-for-sales financial assets	-	-	-	-	2,410	-	2,410
Currency translation differences	-	-	-	180	-	-	180
Total comprehensive income for the period ended 30 September 2009	-	-	-	180	2,410	-	2,590
Balance at 30 September 2009	25,063	11,347	6,840	3,795	4,224	(17,628)	33,641

	Share capital HK\$'000	Share Premium HK\$'000	Capital Reserve HK\$'000	Currency Translation HK\$'000	Available- for-sale- financial assets HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance at 1 January 2010	25,063	11,347	6,840	3,895	3,136	(20,466)	29,815
Issuance of new share	1,200	72,722	-	-	-	-	73,922
Loss for the period	-	-	-	-	-	(2,951)	(2,951)
Other comprehensive (loss)/income							
Revaluation deficit on available-for-sales financial assets	-	-	-	-	(1,063)	-	(1,063)
Currency translation differences	-	-	-	24	-	-	24
Total comprehensive (loss)/income for the period ended 30 June 2010	-	-	-	24	(1,063)	(2,951)	(3,990)
Balance at 30 June 2010	26,263	84,069	6,840	3,919	2,073	(23,417)	99,747
Loss for the period	-	-	-	-	-	(3,268)	(3,268)
Other comprehensive income	-	-	-	-	-	-	-
Revaluation deficit on available-for-sales financial assets	-	-	-	-	(603)	-	(603)
Currency translation differences	-	-	-	587	-	-	587
Total comprehensive income for the period ended 30 September 2010	-	-	-	587	(603)	-	16
Balance at 30 September 2010	26,263	84,069	6,840	4,506	1,470	(26,685)	96,463

MANAGEMENT DISCUSSION AND ANALYSIS

Operation review

In the third quarter of this year, most global economies were decidedly concerned about the prospects and the pace of the recovery and, in fact, were worried about the possibility of another economic meltdown. Additionally, China has recently taken deliberate interest rate action to slow their overheated economy, adding to fears of further slowing. As a result there were few if any positive signs during the period to prompt individuals or small & medium enterprises to return to pre-recession purchasing levels. Until this situation changes, consumer confidence will continue to be dampened. Nonetheless, ThinSoft continues to be very well positioned for an upswing in sales activities with its latest flagship WinConnect supporting Windows 7.

On 19 January 2010, the Company entered into a placing and subscription agreement with Inno Smart Group Limited ("ISG"), the ultimate holding company of the Company, and an independent third party as the placing agent in relation to (i) the placing of 120,000,000 existing shares held by ISG, through the placing agent. The placing was completed on 2 February 2010 and (ii) the subscription of 120,000,000 new shares of the company at HK\$0.635 per share by ISG. The total proceeds from subscription was HK\$76.20 million.

Pursuant to the announcement on 5 February 2010, the Company entered into the Agreement with a third party to which the Company agreed to acquire the entire equity interest in Smooth Joy at a consideration of RMB1.4 billion (approximately HK\$1.6 billion) on 26 January 2010 (the "Acquisition"). On 26 January 2010, the Group further paid a cash amount of RMB62 million (approximately HK\$70.23 million) upon signing the Agreement. As of the 30 June 2010, the total deposit paid by the Group in relation to the acquisition is approximately HK\$81.63 million. Please refer to the Company announcements on 14 December 2009, 27 January 2010 and 5 February 2010, for the detail of the Acquisition.

Further to the signing of the MOU, with the consideration of the latest information gathered from the vendor, the Company had renegotiated the terms and structure of its proposed acquisition. As a result, the Smooth Joy Agreement was terminated on 14 September 2010 and on the same day, the Company entered into another Agreement for the Acquisition with the Vendors. Please refer to the Company announcements dated 29 October 2010 for further detail. The deposits paid mentioned above were fully refunded and reapplied onto the newly signed agreement. The Acquisition is yet to be completed. Further details on the Acquisition will be announced by the Company at appropriate time.

Financial review

The turnover for the nine months ended 30 September 2010 was decreased by approximately 15% to HK\$6.76 million when compared to the corresponding previous period of approximately HK\$7.91 million due to the continued weak market sentiment in the western countries.

The gross profit margin for the period ended 30 September 2010 was approximately 98.9% which is consistent with the last corresponding previous period.

The selling and distribution expenses in the period under review was slightly decreased to HK\$0.42 million when compared to approximately HK\$0.49 million incurred in the corresponding previous period. General and administrative expenses in the period under review was increased to approximately HK\$12.49 million when compared to approximately HK\$11.47 million incurred in the corresponding previous period.

The Group consequently registered a loss attributable to shareholders of approximately HK\$6.29 million for the nine months ended 30 September 2010. The Group continues to be in a healthy financial position. The cash and bank balances as at 30 September 2010 were approximately HK\$7.33 million (2009: approximately HK\$19.8 million). There were no bank borrowings as at 30 September 2010 (2009: Nil).

Employees

As at 30 September 2010, the Group had 14 full-time employees. The aggregate remuneration of the Group's employees, including that of the directors, for the period under review and the previous period amounted to approximately HK\$7.81 million and approximately HK\$6.81 million respectively. The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

At the date of this report, all share options granted to the employees of the Group pursuant to the Pre-IPO share option scheme adopted by the Company on 2 February 2002 were lapsed and no share options have been granted under the Post-IPO share option scheme adopted by the Company on 2 February 2002.

Other remuneration and benefits, including retirement benefits scheme, remained at appropriate level. Particulars are detailed in the relevant section of this report.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2010, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

Name of Directors	Beneficial owner	No. of shares held by controlled corporation	Total	Percentage of the issued share capital of the Company
Mr. Dennis Yu Won Kong (Notes 1 & 2)	3,150,000*	1,875,000,000*	1,878,150,000*	71.51
Mr. Yue Wai Keung (Notes 1 & 3)	–	1,875,000,000*	1,875,000,000*	71.39

Notes:

- Inno Smart Group Limited is beneficially owned 50% by Daylight Express Investments Limited and 50% by Billion Sky Resources Limited. For the purpose of Part XV of the SFO, each of Daylight Express Investments Limited and Billion Sky Resources Limited is deemed to be interested in the shares of the Company held by Inno Smart Group Limited.
- Daylight Express Investments Limited is wholly owned by Strong Choice Investments (Holding) Limited, which is in turn wholly owned by Mr. Dennis Yu Won Kong, an executive Director. For the purpose of the Part XV of SFO, Daylight Express Investments Limited is deemed to be interested in the shares of the Company which Strong Choice Investments (Holding) Limited is interested in. Mr. Dennis Yu Won Kong is deemed to be interested in the shares of the Company which Daylight Express Investments Limited is interested in.
- Billion Sky Resources Limited is wholly owned by Mr. Yue Wai Keung, an executive Director. For the purpose of Part XV of SFO, Mr. Yue Wai Keung is deemed to be interested in the shares of the Company which Billion Sky Resources Limited is interested in.

Save as disclosed above, as at 30 September 2010, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of GEM Listing Rules relating to securities transactions by Directors.

As at 30 September 2010, the following person had interests and/or short positions in the shares and underlying shares of the Company which was recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

* The number of ordinary shares held has been revised to reflect the subdivision of Company shares effective from 5 November 2009. Refer to NOTE 8(a) for details.

Long position in ordinary shares of the Company

Name	Capacity	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Inno Smart Group Limited (Note 1)	Beneficial interest	1,875,000,000*	71.39%
Strong Choice Investments (Holding) Limited (Notes 1 & 2)	Interest of controlled corporation	1,875,000,000*	71.39%
Mr. Dennis Yu Won Kong (Notes 1 & 2)	Beneficial interest	3,150,000*	0.12%
	Interest of a controlled corporation	1,875,000,000*	71.39%
Ms. Ho Siu Lan Sandy (Notes 1 & 2)	Family interest	1,878,150,000*	71.51%

Name	Capacity	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Billion Sky Resources Limited <i>(Notes 1 & 3)</i>	Interest of a controlled corporation	1,875,000,000*	71.39%
Mr. Yue Wai Keung <i>(Notes 1 & 3)</i>	Interest of a controlled corporation	1,875,000,000*	71.39%
Ms. Man Wing Tuen <i>(Notes 1 & 3)</i>	Family interest	1,875,000,000*	71.39%

Notes:

1. Inno Smart Group Limited is owned as to 50% by Daylight Express Investments Limited and 50% by Billion Sky Resources Limited. For the purpose of Part XV of the SFO, each of Daylight Express Investments Limited and Billion Sky Resources Limited is deemed to be interested in the shares of the Company held by Inno Smart Group Limited.
2. Daylight Express Investments Limited is wholly owned by Strong Choice Investments (Holding) Limited which is in turn wholly owned by Mr. Dennis Yu Won Kong. Ms. Ho Siu Lan Sandy is the spouse of Mr. Dennis Yu Won Kong. For the purpose of Part XV of the SFO, Daylight Express Investments Limited is deemed to be interested in the shares of the Company which Strong Choice Investments (Holding) Limited is interested in. Mr. Dennis Yu Won Kong is deemed to be interested in the shares of the Company which Daylight Express Investments Limited is interested in and Ms. Ho Siu Lan Sandy is deemed to be interested in the shares of the Company which Mr. Dennis Yu Won Kong is interested in.
3. Billion Sky Resources Limited is wholly owned by Mr. Yue Wai Keung. Ms. Man Wing Tuen is the spouse of Mr. Yue Wai Keung. For the purpose of Part XV of the SFO, Mr. Yue Wai Keung is deemed to be interested in the shares of the Company which Billion Sky Resources Limited is interested in and Ms. Man Wing Tuen is deemed to be interested in the shares of the Company which Mr. Yue Wai Keung is interested in.

Save as disclosed above, as at 30 September 2010, there was no person had an interest or short position in the shares or underlying shares of the Company as recorded in the register to be kept under Section 336 of the SFO.

- * The number of ordinary shares held has been revised to reflect the subdivision of Company shares effective from 5 November 2009. Refer to NOTE 8(a) for details.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the nine-month period ended 30 September 2010, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

COMPLIANCE WITH RULES 5.48 TO 5.67 OF THE GEM LISTING RULES

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, the Company's directors have complied with the required standard of dealings and the Company's code of conduct regarding securities transactions by the directors throughout the nine-month period ended 30 September 2010.

COMPETING INTEREST

None of the directors or the management shareholders and their respective associates of the Company (as defined in the GEM Listing Rules) had any business or interest which competes or may compete with the business of the Group nor any other conflicts of interest with the Group during the period under review.

COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE PRACTICE

The Company applied the principles and complied with all the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the period under review.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group. The audit committee comprises three members, Mr Chen Tzyh-Trong, Mr Lee Chung Mong, and Mr Yeung Chi Hung. All of them are independent non-executive directors of the Company.

The Group's unaudited condensed consolidated financial information for the nine-months ended 30 September 2010 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

DIRECTORS OF THE COMPANY

Executive directors of the Company as at the date of this report are Mr Dennis Yu Won Kong and Mr Yue Wai Keung; the non-executive directors are Mr Chan Kwan Pak and Mr Lam Kit Sun; and the independent non-executive directors are Mr Chen Tzyh-Trong, Mr Lee Chung Mong and Mr Yeung Chi Hung.

ON BEHALF OF THE BOARD

Dennis Yu Won Kong

Chairman

Hong Kong
11 November 2010