



# 中國手遊文化投資有限公司

China Mobile Games and Cultural Investment Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 8081)

Interim Report 2014



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

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*This report, for which the directors (the “**Directors**”) of China Mobile Games and Cultural Investment Limited (the “**Company**”) 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 the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*

*This report will remain on the “Latest Company Announcements” page of the GEM website at <http://www.hkgem.com> for a minimum period of seven days from the date of its publication and on the Company’s website at <http://www.cmgc.com.hk>.*

## INTERIM RESULTS

The board of Directors (the “**Board**”) of the Company announces the unaudited condensed consolidated interim results (“**Interim Results**”) of the Company and its subsidiaries (together the “**Group**”) for the six months and three months ended 30 June 2014, together with the unaudited comparative figures for the corresponding period of 2013 as follows:

### UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months and three months ended 30 June 2014

	Notes	For the six months ended 30 June		For the three months ended 30 June	
		2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Revenue	3	91,109	50,978	47,474	3,840
Cost of inventories sold/services		(14,327)	(47,519)	(7,769)	(2,340)
Other gains and losses		238	(239)	214	–
Other revenue and income		1,165	89	605	1
Employee benefits expenses		(48,590)	(2,487)	(24,598)	(1,415)
Depreciation		(14,999)	(134)	(7,435)	(67)
Other operating expenses		(25,243)	(2,810)	(12,257)	(1,266)
Share of results of associates		466	–	213	–
Finance costs		(696)	(1,989)	(531)	(1,123)
Loss before income tax	4	(10,877)	(4,111)	(4,084)	(2,370)
Income tax expense	5	(83)	–	(49)	–
Loss for the period		(10,960)	(4,111)	(4,133)	(2,370)
<b>Other comprehensive loss</b>					
<i>Items that may be classified subsequently to profit or loss:</i>					
Exchange differences arising on translation		5	–	5	–
Fair value loss on available-for-sale investments		(21,590)	–	(8,117)	–
Other comprehensive loss for the period		(21,585)	–	(8,112)	–
<b>Total comprehensive loss for the period</b>		<b>(32,545)</b>	<b>(4,111)</b>	<b>(12,245)</b>	<b>(2,370)</b>

	Note	For the six months ended 30 June		For the three months ended 30 June	
		2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Loss for the period attributable to:					
Shareholders of the Company		(10,763)	(4,111)	(4,103)	(2,370)
Non-controlling interests		(197)	–	(30)	–
		(10,960)	(4,111)	(4,133)	(2,370)
Total comprehensive loss attributable to:					
Shareholders of the Company		(32,348)	(4,111)	(12,215)	(2,370)
Non-controlling interests		(197)	–	(30)	–
		(32,545)	(4,111)	(12,245)	(2,370)
<b>Loss per share</b>	7		(Restated)		(Restated)
– Basic (HK cents)		(0.80)	(0.73)	(0.25)	(0.42)
– Diluted (HK cents)		(0.80)	(0.73)	(0.25)	(0.42)

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

		At 30 June 2014	At 31 December 2013
	Notes	HK\$'000 (Unaudited)	HK\$'000 (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	8	25,216	35,835
Investment properties		–	38,700
Investment in associates		4,208	1,561
Available-for-sale investments	9	64,213	–
Deferred tax assets		1,211	1,211
		<b>94,848</b>	77,307
<b>CURRENT ASSETS</b>			
Inventories		1,952	2,277
Debtors, deposits and prepayments	10	34,023	41,483
Income tax recoverable		6	44
Cash and bank balances		149,790	42,125
		<b>185,771</b>	85,929
Assets of a disposal group classified as held for sale	15	–	14,214
		<b>185,771</b>	100,143
<b>DEDUCT:</b>			
<b>CURRENT LIABILITIES</b>			
Creditors, accruals and other payables	11	12,222	13,318
Short-term borrowings	12	24,000	–
Income tax payable		–	166
		<b>36,222</b>	13,484
Liabilities of a disposal group classified as held for sale	15	–	1,214
		<b>36,222</b>	14,698
<b>NET CURRENT ASSETS</b>		<b>149,549</b>	85,445
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>244,397</b>	162,752
<b>NON-CURRENT LIABILITY</b>			
Deferred tax liabilities		10	10
<b>NET ASSETS</b>		<b>244,387</b>	162,742
<b>CAPITAL AND RESERVES</b>			
Share capital	13	190,545	93,086
Share premium and reserves		53,295	68,825
Equity attributable to shareholders of the Company		243,840	161,911
Non-controlling interests		547	831
<b>TOTAL EQUITY</b>		<b>244,387</b>	162,742

# UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

	Attributable to shareholders of the Company									
	Share capital	Share premium	Convertible notes reserve	Revaluation reserve	Translation reserve	Share options reserve	Accumulated losses	Total	Non-Controlling Interests	Total Equity
	HK\$'000	HK\$'000	HK\$'000	HK'000	HK'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2013 (audited)	55,770	110,004	13,809	-	-	-	(66,045)	113,538	-	113,538
Loss and total comprehensive loss for the period	-	-	-	-	-	-	(4,111)	(4,111)	-	(4,111)
At 30 June 2013 (unaudited)	55,770	110,004	13,809	-	-	-	(70,156)	109,427	-	109,427
At 1 January 2014 (audited)	93,086	143,717	-	-	-	-	(74,892)	161,911	831	162,742
Loss for the period	-	-	-	-	-	-	(10,763)	(10,763)	(197)	(10,960)
Other comprehensive loss for the period	-	-	-	(21,590)	5	-	-	(21,585)	-	(21,585)
Total comprehensive loss for the period	-	-	-	(21,590)	5	-	(10,763)	(32,348)	(197)	(32,545)
Shares issued	97,459	16,545	-	-	-	-	-	114,004	-	114,004
Share-based payment	-	-	-	-	-	273	-	273	-	273
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	33	33
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	(120)	(120)
At 30 June 2014 (unaudited)	190,545	160,262	-	(21,590)	5	273	(85,655)	243,840	547	244,387

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

*For the six months ended 30 June 2014*

	2014 HK'000	2013 HK'000
NET CASH FROM OPERATING ACTIVITIES	11,022	9,193
NET CASH USED IN INVESTING ACTIVITIES	(40,665)	(71,225)
NET CASH FROM FINANCING ACTIVITIES	137,308	–
NET INCREASE IN CASH AND CASH EQUIVALENTS	107,665	(62,032)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	42,125	77,156
CASH AND CASH EQUIVALENTS AT END OF PERIOD	149,790	15,124



## 1. BASIS OF PREPARATION

The Interim Results have been prepared in accordance with Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“**HKFRSs**”) and the disclosure requirements of the GEM Listing Rules.

The Interim Results have been prepared under the historical cost basis, except for certain financial instruments which are carried at fair values. The principal accounting policies used in the preparation of the Interim Results are consistent with those applied in the Company’s annual financial statements for the year ended 31 December 2013, except for the adoption of new and revised HKFRSs which are effective for the Group’s financial year beginning on 1 January 2014. The adoption of these new and revised HKFRSs has no material effect on the Interim Results.

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

## 2. SEGMENT INFORMATION

The Group’s determines its operating segment based on the internal reports that are regularly reviewed by the chief operating decision-maker in order to allocate resources to the segment and to assess its performance.

- (i) Mobile-online game business — design, research and development of mobile-online games, identifying and securing intellectual property rights for onward sale or licensing;
- (ii) IT business — the provision of IT services, including consultancy, technical support, systems integration, development and sales of relevant hardware and software products;
- (iii) Money lending business;
- (iv) Provision of medical diagnostic and health check services; and
- (v) Securities investment business.



Segment revenue and results for the six months ended 30 June 2014 and 2013 are reported below:

**For the six months ended 30 June 2014 (unaudited)**

	Mobile-online game business	IT Business	Money lending business	Provision of medical diagnostic and health check services	Securities investment	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Reportable segments revenue						
External customers	–	1,758	131	89,220	–	91,109
Reportable segments loss	(253)	(779)	(215)	(2,621)	(114)	(3,982)
Unallocated head office and corporate expenses						(6,826)
Interest income						161
Share of results of associates						466
Finance costs						(696)
Loss before income tax						(10,877)
Income tax expense						(83)
Loss for the period						(10,960)

**For the six months ended 30 June 2013 (unaudited)**

	Mobile-online game business	IT Business	Money lending business	Provision of medical diagnostic and health check services	Securities investment	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Reportable segments revenue						
External customers	–	48,137	2,841	–	–	50,978
Reportable segments profit (loss)	–	115	389	–	(239)	265
Unallocated head office and corporate expenses						(2,455)
Interest income						68
Share of results of associates						–
Finance costs						(1,989)
Loss before income tax						(4,111)
Income tax expense						–
Loss for the period						(4,111)

### 3. REVENUE

Revenue represents the net invoiced value of IT products sold, related IT services rendered, loans interest and income from provision of medical diagnostic and health check services. An analysis of the Group's revenue is as follows:

	For the six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Income from IT business	1,758	48,137
Loans interest and related income	131	2,841
Income from provision of medical diagnostic and health check services	89,220	–
	<b>91,109</b>	50,978

### 4. LOSS BEFORE INCOME TAX

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

	For the six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Cost of inventories expensed	14,327	47,389
Directors' remuneration	1,252	263
Other staff cost		
– salaries and benefits	45,777	2,178
– share-based payment, excluding those of directors	135	–
– retirement scheme contribution, excluding those of directors	1,426	46
	<b>47,338</b>	2,224
Interest on borrowings wholly repayable within five years	696	1,989
Minimum lease payments paid under operating leases	6,248	434
Realised loss on financial assets at fair value through profit or loss	94	239
Gain on disposals of subsidiaries	(332)	–

## 5. INCOME TAX EXPENSES

	For the six months ended 30 June		For the three months ended 30 June	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Hong Kong profits tax – current period	83	–	49	–

For the six months ended 30 June 2014, other than the provision for Hong Kong profits tax made at 16.5% on the estimated assessable profits, there is no provision for taxation in other jurisdictions as those subsidiaries incur loss for the period.

For the six months ended 30 June 2013, no provision for Hong Kong profits tax was made in the financial statements as the Group had no assessable profits in Hong Kong for the period.

## 6. INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2014 (2013: Nil).

## 7. LOSS PER SHARE

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

	For the six months ended 30 June		For the three months ended 30 June	
	2014	2013	2014	2013
<b>Loss</b>				
Loss attributable to shareholders of the Company (HK'000)	<b>(10,763)</b>	(4,111)	<b>(4,103)</b>	(2,370)
<b>Number of shares</b>		(Restated)		(Restated)
Weighted average number of ordinary shares in issue	<b>1,349,874,721</b>	559,861,355	<b>1,626,574,606</b>	559,861,355

The computation of diluted loss per share does not assume:

- (i) the exercise of the Company's outstanding share options for the six months ended 30 June 2014 because the adjusted exercise prices of those options calculated in accordance with Hong Kong Accounting Standards 33 "Earnings Per Share" are higher than the average market price of the shares for the period.
- (ii) the conversion of the Company's outstanding convertible loan notes for the six months ended 30 June 2013 since they are anti-dilutive.

The weighted average number of ordinary shares in issue for the six months and three months ended 30 June 2013 for the purpose of basic and diluted loss per share has been adjusted and restated for the rights issues completed on 21 May 2014.

## 8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2014, additions to property, plant and equipment was HK\$4,381,000 (2013: Nil).

## 9. AVAILABLE-FOR-SALE INVESTMENTS

	At 30 June	At 31 December
	2014 HK\$'000	2013 HK\$'000
Listed equity securities in Hong Kong	20,613	–
Unlisted equity securities	43,600	–
	64,213	–

Included in unlisted equity securities above is the Group's investment in Mighty Eight Investment Limited ("Mighty Eight"), a company incorporated in Samoa, with a carrying amount of HK\$43,600,000. The investment represents a 5% holding of the issued share capital of Mighty Eight and more than 10% of the assets in the Group's condensed consolidated statement of financial position. Mighty Eight is not regarded as an associate of the Group because the Group has less than one-fifth of the voting power of Mighty Eight pursuant to the shareholders agreement and the Group is entitled to nominate one person to act as a director out of a total of up to six directors.

## 10. DEBTORS, DEPOSITS AND PREPAYMENTS

	At 30 June 2014	At 31 December 2013
	HK\$'000	HK\$'000
Trade debtors	21,874	22,546
Other debtors, deposits and prepayments	12,149	18,937
	<b>34,023</b>	41,483

The credit terms given to the customers vary and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with trade debtors, credit evaluations of customers are performed periodically.

The credit period given to trade debtors ranged from 30 days to 90 days and the following is an aging analysis of trade debtors:

	At 30 June 2014	At 31 December 2013
	HK\$'000	HK\$'000
Within 1 month	8,446	7,791
1 to 2 months	7,289	6,729
2 to 3 months	2,743	3,323
Over 3 months	3,396	4,703
	<b>21,874</b>	22,546

## 11. CREDITORS, ACCRUALS AND OTHER PAYABLES

	At 30 June 2014	At 31 December 2013
	HK\$'000	HK\$'000
Trade creditors	1,480	3,106
Accruals and other payables	10,475	9,113
Deposits received	267	1,099
	<b>12,222</b>	13,318

The following is an aging analysis of trade creditors:

	At 30 June 2014	At 31 December 2013
	HK\$'000	HK\$'000
Within 3 months	1,418	3,106
Over 3 months	62	–
	<b>1,480</b>	3,106

## 12. SHORT-TERM BORROWINGS

During the current interim period, the Group obtained net borrowings from certain independent third parties amounting to HK\$24,000,000 (six months ended 30 June 2013: Nil). These borrowings carry interest at fixed interest rates ranging from 10% to 12% and are repayable within one year.

### 13. SHARE CAPITAL

	Notes	Number of Shares	HK'000
Authorised:			
Ordinary shares of HK\$0.10 each:			
At 31 December 2013 and 1 January 2014		1,000,000,000	100,000
Increase on 14 January 2014	(i)	1,000,000,000	100,000
At 30 June 2014		2,000,000,000	200,000
Issued and fully paid:			
Ordinary shares of HK\$0.10 each:			
At 31 December 2013 and 1 January 2014		930,857,620	93,086
Issue of shares through placing	(ii)	190,000,000	19,000
Issue of shares through rights issue	(iii)	560,428,810	56,043
Issue of shares on 16 June 2014	(iv)	224,166,000	22,416
At 30 June 2014		1,905,452,430	190,545

Notes:

- (i) Pursuant to the ordinary resolution of the Company passed on 14 January 2014, the authorised share capital of the Company increased from HK\$100,000,000 divided into 1,000,000,000 ordinary shares of HK\$0.10 each to HK\$200,000,000 divided into 2,000,000,000 ordinary shares of HK\$0.10 each by the creation of an additional 1,000,000,000 shares.
- (ii) On 27 January 2014, a total of 190,000,000 new shares of the Company were issued at a placing price of HK\$0.128 each to not less than six places.
- (iii) On 21 May 2014, the Company completed a rights issue pursuant to which 560,428,810 shares of HK\$0.10 each were issued in the proportion of one rights share for every two ordinary share at a subscription price of HK\$0.128 per rights share.
- (iv) Pursuant to a subscription agreement on 6 June 2014, a total of 224,166,000 new shares of the Company were issued on 16 June 2014 at HK\$0.10 each to China New Economy Fund Limited, an independent third party of the Company.

The new shares allotted and issued rank pari passu in all respects with other shares in issue.



#### 14. DISPOSAL OF SUBSIDIARIES

During the six months ended 30 June 2014, the Group disposed of the following subsidiaries:

- (a) In June 2014, the Group disposed of its entire equity interest in China Rich Finance Limited (“**China Rich**”), previously a wholly-owned subsidiary of the Group, at a consideration of approximately HK\$850,000 to an independent third party, resulting in a gain of approximately HK\$60,000. China Rich is principally engaged in money lending business in Hong Kong and is the holder of a valid money lenders licence under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong).
- (b) In June 2014, the Group disposed of its entire equity interest in Funa Assets Limited (“**Funa Assets**”), previously a wholly-owned subsidiary of the Group, at a consideration of approximately HK\$38,699,000 to an independent third party, resulting in a gain of approximately HK\$272,000. Funa Assets is principally engaged in property investment business and hold investment properties in Hong Kong.
- (c) As set out in note 15, the Group also disposed of a disposal group classified as held for sale as at 31 December 2013 during the current period and details of this disposal are disclosed therein.

The net assets of these subsidiaries at the respective dates of disposals were as follows:

	China Rich Finance Limited	Funa Assets Limited	Total
	HK'000	HK'000	HK'000
Analysis of major classes of assets and liabilities over which control was lost:			
Investment properties	–	38,700	38,700
Property, plant and equipment	255	28	283
Deposits	10	–	10
Bank balances	690	–	690
Accruals and other payables	–	(256)	(256)
Income tax payables	(165)	(45)	(210)
	790	38,427	39,217
Gain on disposal of subsidiaries:			
Consideration received	850	38,699	39,549
Net assets disposed of	(790)	(38,427)	(39,217)
	60	272	332

## 15. DISPOSAL GROUP HELD FOR SALE

On 29 January 2014, the Company and Billion Legend Trading Limited (“**Billion Legend**”) entered into an agreement, pursuant to which Billion Legend has agreed to purchase and the Company has agreed to sell the entire equity interest of Computech Online Limited and its subsidiaries (the “**Disposal Group**”) at a total consideration of HK\$13,000,000. The assets and liabilities attributable to the Disposal Group were classified as held for sale and presented separately in the consolidated statement of financial position as at 31 December 2013. The disposal was completed on 11 February 2014, on which date the Disposal Group ceased to be subsidiaries of the Company.

The major classes of assets and liabilities comprising the Disposal Group classified as held for sale as at 31 December 2013 were as follows:

	HK\$'000
Goodwill	97
Property, plant and equipment	5,285
Loan receivables	6,099
Debtors, deposits and prepayments	1,144
Cash and bank balances	2,660
	15,285
Less: Loss on remeasurement to fair value less costs to sell in respect of disposal group held for sale recognised during year ended 31 December 2013 – Note	(1,071)
<b>Assets of a disposal group classified as held for sale</b>	<b>14,214</b>
Creditors and accruals	1,214
<b>Liabilities of a disposal group classified as held for sale</b>	<b>1,214</b>

Note: The amount of HK\$1,071,000 represented the loss on remeasurement to fair value less costs to sell, which was calculated based on the difference between the carrying amount of the net assets of the Disposal Group as at 31 December 2013 and the consideration in respect of the disposal of HK\$13,000,000.

## 16. SHARE-BASED PAYMENTS

The Company's share option scheme (the "**Scheme**") was adopted on 10 November 2010. The purpose of the Scheme is to provide incentives and help the Group in retaining its existing employees and recruiting additional employees and to provide them with a direct economics interest in attaining the long term business objectives of the Company.

The movements of the share options granted under the Scheme during the period are as follows:

	Number of share options
Outstanding at 1 January 2014	–
Granted on 19 June 2014 (Note)	<b>95,272,620</b>
Outstanding at 30 June 2014	<b>95,272,620</b>

Note:

*In addition, on 19 June 2014, share options entitling the holders thereof to subscribe for an aggregate of 95,272,622 shares were conditionally granted to the two executive directors of the Company (as to 57,163,573 shares to Mr. Zhang Xiongfeng and as to 38,109,049 shares to Mr. Zhang Peiao). The grant of such options are conditional upon:*

- (1) the approval by the shareholders of the Company at the general meeting of the Company in accordance with the Note to Rule 23.03(4) of the GEM Listing Rules;*
- (2) the approval of the refreshment of the total number of securities which may be issued upon exercise of all options to be granted under the Scheme (excluding options lapsed in accordance with the terms of the Scheme) and any other schemes of the Company must not in aggregate exceed 10% of the Shares in issue as at the date of approval of the Scheme ("**10% General Limit**") by the shareholders at the general meeting of the Company; and*
- (3) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, such number of shares which may fall to be allotted and issued pursuant to the exercise of the options granted under the refreshed 10% General Limit.*

The closing price of the Company's shares immediately before the date of grant was HK\$0.14 per share of the Company.

The fair value of the share options determined at the date of grant using the Binomial model was HK\$13,866,000. The vesting date of the share options granted is 31 December 2015. The fully vested share options have an exercise period from 1 January 2016 to 30 June 2016. The following assumptions were used to calculate the fair value:

Share price on the date of grant	HK\$0.14
Exercise price	HK\$0.14
Expected life	2.03 years
Expected volatility	101.14%
Dividend yield	0%
Risk-free interest rate	0.471%

The Binomial model has been used to estimate the fair value of the share options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the share options.

During the current period, the Group recognised an expense of HK\$273,000 in relation to share options granted by the Company under the Scheme.

## 17. CONNECTED AND RELATED PARTY TRANSACTIONS

### (a) Connected and related party transaction

On 18 June 2014, the Company entered into the subscription agreement with Turbo Pointer Limited ("**Turbo Pointer**"), pursuant to which the Company conditionally agreed to allot and issue, and Turbo Pointer has conditionally agreed to subscribe for, the 381,078,000 new shares of the Company at subscription price of HK\$0.118 per each subscription share (the "**Subscription**"). Turbo Pointer is wholly-owned by Mr. Zhang Xiongfeng, a director of the Company and the chairman of the Board. As such, Turbo Pointer is a connected person of the Company and the Subscription constitutes a connected transaction of the Company under the GEM Listing Rules. The Subscription is subject to shareholders' approval at the extraordinary general meeting of the Company to be held on 12 August 2014.

### (b) Key management personnel remuneration

The remuneration of the directors of the Company, who are also identified as members of key management of the Group, are disclosed in note 4 to the condensed consolidated financial statements.

## 18. EVENT AFTER REPORTING PERIOD

Following the completion of the acquisition of 5% holding of issued share capital of Mighty Eight ("**First Acquisition**") as disclosed in note 9 to the condensed consolidated financial statements, the Group completed the acquisition of additional 13% of issued share capital of Mighty Eight ("**Second Acquisition**"), for a consideration of HK\$113,970,000 on 14 July 2014. Upon completion of the First Acquisition and the Second Acquisition, the Group held a total of 18% of the total issued share capital of Mighty Eight.



## MANAGEMENT DISCUSSION AND ANALYSIS

### **Business and financial review**

For the period under review, the Group has been ardently developing the burgeoning mobile-online gaming market by implementing both dynamic and organic growth strategy. The Group has completed the name change from “Computech Holdings Limited” to “China Mobile Games and Cultural Investment Limited” during the period under review to further reflect its core business.

Currently, the Group is principally engaged in (i) mobile-online game business, including design, research and development of mobile-online games, identifying and securing intellectual property rights for onward sale or licensing; (ii) provision of IT services; (iii) money lending business; (iv) provision of medical diagnostic and health check services; and (v) securities investment business.

During the period under review, the Group recorded a revenue of approximately HK\$91,109,000. As compared to revenue of approximately HK\$50,978,000 in corresponding period in 2013, there is an increase of approximately 79%. The increase in revenue was mainly attributable to the Group’s health check business, which commenced in October 2013. The Group has scaled down its business on sales of IT hardware products during the period under review, revenue contributed by IT business had a significant decrease.

The unaudited consolidated total comprehensive loss attributable to shareholders of the Company for the six months ended 30 June 2014 amounted to approximately HK\$32,348,000 (2013: HK\$4,111,000). The significant increase was mainly due to (i) the unrealised fair value loss on available-for-sale investments included in other comprehensive loss of approximately HK\$21,590,000; (ii) the loss recorded by the Group’s health check business during the period under review (noting that the Group only commenced such business since October 2013); and (iii) that the Group has scaled down its business on sales of IT hardware products during the period under review, resulting in a significant decrease in revenue from the IT business.

#### *Mobile-online game business*

The Group aims to develop as one of the leading players in mobile-online gaming industry. With the increasing penetration of smart mobile devices and advanced technologies, the Group expects that money spent on mobile games by users of smart mobile devices will grow rapidly in the future. During the period under review, the Group has tapped into the industry through a series of acquisition, entering into cooperation agreement and license agreement, demonstrating the determination of the Group to implement the new business strategy. As the Group has only commenced its mobile-online game business in the second quarter of 2014, during the period under review, the Group has not yet generated revenue from this segment. Details of transactions completed during the period under review are as follows.

In June 2014, the Group completed the acquisition of 5% issued share capital of Mighty Eight Investments Limited (“**Mighty Eight**”) (“**First Acquisition**”), for a consideration of HK\$43,600,000. Such investment is accounted as available-for-sale investment as at 30 June 2014. The major subsidiaries and controlled companies of Mighty Eight include Something Big Technology Company Limited (“**HK SBT**”), 上海頑迦網絡科技有限公司 (unofficial English name being, “Shanghai Wanjia Network Technology Co., Ltd.”) (“**Shanghai Wanjia**”) and 上海顛視數碼科技有限公司 (unofficial English name being, “Shanghai Something Big Technology Co., Ltd.”) (“**Shanghai SBT**”), which are principally engaged in design, development, marketing and distribution and operation of mobile-online games. Mobile-online games SanGuo-Mobile (手機三國) and Voyage-Mobile (手機大航海, also known as 航海爭霸) are very popular games developed by these companies. It was targeted that two mobile-online games whose proposed names are Sanguo Card (Q卡三國), which is a SanGuo themed card game with unique playing model, and NBA Hero (NBA英雄), which is a cartoon-style RPG sports game, will also be launched by these companies in the third quarter and fourth quarter of 2014 respectively.

On 30 June 2014, the Group established a wholly foreign owned enterprise (“**WOFE**”), namely 迹象信息技術(上海)有限公司 (unofficial English name for identification purpose, Jixiang Information Technology (Shanghai) Co., Ltd.), in the People’s Republic of China (“**PRC**”) which is principally engaging in technology development, technology advisory, technology services, transfer of internet technology; design, development and production of software; design and development of game and comic software; sale of self-developed products and provision of related technological advisory services and wholesale and import and export of the above products and products of same class.

### *IT business*

The revenue of IT business for the period under review was approximately HK\$1,758,000 (2013: HK\$48,137,000) and this segment recorded a loss of approximately HK\$779,000 (2013: profit of approximately HK\$115,000). In view of persistent severe competition in the sale of hardware products, during the period under review, the Group dwindled its business of selling IT hardware products and allocated more resources on exploring the feasibility in developing software products, including but not limited to financial-related software, online games, mobile games as well as related service offerings.

### *Money lending business*

During the period under review, the Group’s loan portfolio comprised of secured and unsecured loans. Revenue from interest income and other related income was approximately HK\$131,000 (2013: HK\$2,841,000). The average interest rate charged by the Group during the period under review was approximately 29% per annum.

In February and June 2014, the Group has disposed of Computech Online Limited and its subsidiaries and China Rich Finance Limited respectively, which are engaged in the money lending business. The Group is in the process of applying for a money lenders licence under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong) for one of its wholly-owned subsidiaries to carry on its money lending business. The Group will pay close attention to the market conditions so as to capture business opportunities in this segment.



### *Health check business*

During the period under review, revenue from the health check business which was acquired by the Group on 30 September 2013 amounted to approximately HK\$89,220,000 (2013: Nil). The net loss of the segment for the period under review amounted to approximately HK\$2,621,000 (2013: Nil).

Before the Group acquired the health check business on 30 September 2013, it recorded revenue of approximately HK\$83,494,000 and net loss of approximately HK\$3,563,000 for the six months ended 30 June 2013. The revenue of the health check business has increased by approximately 7% for the six months ended 30 June 2014 when compared to that of the corresponding period in 2013.

The Directors are reviewing the operations of health check centers and strive to improve the operational efficiency of its health check business so as to enhance its competitiveness in the market and profitability. The Directors may also consider disposing of the health check business when opportunities arise so as to generate more capital and concentrate on the development of mobile-online games business. In May 2014, the Group entered into a memorandum of understanding in relation to the possible investment by the potential investor in the Group's health check business.

### *Securities investments*

The Group's investment portfolio mainly comprises investments in listed securities. During the period under review, this segment recorded a loss of approximately HK\$114,000 (2013: HK\$239,000).

During the period under review, the Group acquired a total of 170,000,000 shares of the issued share capital of Universe International Holdings Limited, ("**Universe International**"), the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1046), which is principally engaged in the business of distribution of films in various videogram formats, licensing and sublicensing of film rights and film exhibition, leasing of investment properties. As the fair value of Universe International as at 30 June 2014 was lower than the cost of investment by the Group, the Group recorded an unrealized fair value loss of approximately HK\$21,590,000 as other comprehensive loss for the investment on Universe International which was classified as available-for-sale investments. The Group will continue optimizing its investment portfolios and create value for shareholders.

### *Properties investments*

In June 2014, the Group disposed of the entire issued share capital of Funa Assets Limited ("**Funa Assets**"). The principal assets of Funa Assets are the investment properties situated in Hong Kong. The Group considers that the disposal represents a good opportunity to realise its investment in the properties and can provide capital and resources for the operation and development of the Group.

## PROSPECTS

In view of the booming trend in the mobile-online game industry, the Group aims to develop itself to be one of the leading players in mobile-online gaming industry. Through a series of acquisition, entering into cooperation agreement and license agreement, the Group is achieving organic growth by designing and developing more innovative and popular mobile games and offload some non-core businesses to stay focused on the online-mobile games business.




Following the completion of the First Acquisition in June 2014, in which the Group acquired 5% issued share capital of Mighty Eight for a consideration of HK\$43,600,000, the Group completed the acquisition of additional 13% of issued share capital of Mighty Eight (“**Second Acquisition**”), for a consideration of HK\$113,970,000 on 14 July 2014. Upon completion of the First Acquisition and the Second Acquisition, the Group held a total of 18% of the total issued share capital of Mighty Eight. The acquisitions of the stake offers a good opportunity for the Group to make investment in the mobile-online games industry, which is in line with the Group’s development strategy to invest and develop in mobile-online games business.

On 14 March 2014, the Group entered into an exclusive licence agreement with Jade Dynasty Publications Limited (“**Jade Dynasty**”) pursuant to which Jade Dynasty will grant the exclusive licence to the Group for the development of mobile games and other related products based on the contents of the designated comics, including but not limited to the character images, storylines, display screen, circumstances and various items (weapons and costumes) of various comics series during the licence period. The Group is in negotiation with Jade Dynasty for the suitable contents for development of mobile games products.

On 28 May 2014, the Group entered into the subscription agreement pursuant to which the Group conditionally agreed to subscribe for 12.5% share capital (as enlarged by the subscription) of Youle Holdings Limited at an aggregate subscription price of RMB4,166,700 (“**WildHammer Subscription**”), subject to the completion of acquisition of the paid-in capital of 上海蠻錘數碼科技有限公司 (English name for identification only, Shanghai WildHammer Digital Technology Co., Ltd.) (“**Wildhammer**”) by the subsidiary of Youle Holdings Limited (“**WildHammer Acquisition**”). Wildhammer is principally engaged in, among others, the technology development of computer and digital products, information technology, technical services, development and sales of software and hardware, and webpage design. The WildHammer Acquisition is obtaining the filing at the relevant government authorities and it is expected that the completion of the WildHammer Acquisition will take place by August 2014. In June 2014, WildHammer obtained the worldwide exclusive licences to operate the mobile-online games namely “全民武俠” (in English, for identification purpose, National Martial Arts Game) and “怪物也囂張” (in English, for identification purpose, Monster Master).

In addition, on 28 May 2014, the Group has been granted with the exclusive license from Wildhammer (the “**WildHammer Licence**”) to operate a mobile device online game called “戰略傳奇”, also known as “囂張大冒險” (English name for identification only, The Rune Rush) (“**The Rune Rush**”) in the regions of South East Asia, Hong Kong, the Macau Special Administrative Region of the PRC (“**Macau**”) and Taiwan within a licence period.

On 24 June 2014, the Group entered into a license agreement with HK SBT pursuant to which the Group granted the operating licence of The Rune Rush to HK SBT in the regions of South East Asia, Hong Kong, the Macau and Taiwan within a licence period. The Directors consider that the substantial experience of HK SBT in operation of mobile-online games will assist the Group to perform its obligations under WildHammer Licence. The Rune Rush has been published on the distribution platforms in August 2014.



As an integral part of the strategy to broaden the Group's offerings on mobile-online games, in July 2014, a joint venture was established by the Group and Ample China Development Limited ("**Ample China**"), a wholly-owned subsidiary of Universe International. The joint venture will be principally engaged in the development and sale of computer and mobile phone games. The joint venture with Universe International enables the Group to tap on the business in the development and sale of computer and mobile phone games.

The WOFE have commenced the design and development of a new innovative RPG mobile-online game, which is targeted to be launched in the fourth quarter of 2014 and is expected to commence to generate income for the Group since then.

Furthermore, the WOFE will also make capital injection to 上海智趣廣告有限公司 (unofficial English name for identification purpose Shanghai Zhiqu Advertisement Co., Ltd.) ("**Zhiqu**"), a company which is principally engaged in the provision of mobile game integral marketing services, pursuant to the capital injection agreement dated 25 July 2014 and entered into by the WOFE and Zhiqu ("**Capital Injection Agreement**"). Upon completion of such capital injection, which is expected to take place in August 2014, Zhiqu will be owned as to 51% by the Group and become a non-wholly owned subsidiary of the Company. In addition to the Capital Injection Agreement, the Group also entered into a memorandum of understanding with the existing shareholders of Zhiqu ("**Existing Shareholders**"), pursuant to which the Group proposes to subscribe for not less than 51% of the issued share capital of a company, proposed to be incorporated by the Existing Shareholders, as enlarged by the issue of the subscription shares. It is proposed that such company will be principally engaged in the provision of mobile game integral marketing services.

The Group is also exploring the opportunity to invest in 上海網岩網路科技有限公司 (in English, for identification purpose, Shanghai Wang Yan Network Technology Co., Ltd. ("**Shanghai Wang Yan**")), a company which is principally engaged in the technology development of the internet technology products and a memorandum of understanding was entered into by the Group with such company on 15 July 2014. One of the senior management team of Shanghai Wang Yan has extensive experience in the online game industry and had been involved in the operation, management and marketing of a popular racing game "Kart Rider (跑跑卡丁車)". Another two senior managements of Shanghai Wang Yan previously worked under the group of Tencent Holdings Limited and were responsible for design and development of mobile-online games. Shanghai Wang Yan represented to the Company that it has commenced the design and development of a new RPG mobile-online game namely 踢爆那西遊 (in English, for identification purpose, Kicking Journey to the West), which is targeted to be launched in the fourth quarter of 2014.

The mobile game market experienced sharp growth in recent years amid increased penetration of smartphones, rising of consumption capacity as a result of the domestic economic development, and soaring potential demand for games as a way for relaxation. The mobile-online game market is expected to grow rapidly in the future. The Group's business objective is to become one of the leading players in the mobile-online game industry. In the meantime, the Directors will also seek other business opportunities for diversifying the business portfolios with the aim to create better returns for the investors.

## FINANCIAL RESOURCES AND LIQUIDITY

The Group has maintained a strong liquidity and financial position. As at 30 June 2014, the total assets of the Group were approximately HK\$280,619,000 (31 December 2013: HK\$177,450,000) including cash and bank balances of approximately HK\$149,790,000 (31 December 2013: HK\$42,125,000). The net current assets of the Group was approximately HK\$149,549,000 (31 December 2013: HK\$85,445,000) and the Group's current ratio, being current assets over its current liabilities, was approximately 5.1 times (31 December 2013: 6.8 times).

As at 30 June 2014, the Group has short-term borrowings of approximately HK\$24,000,000 (31 December 2013: Nil) which are repayable within one year. The Group's gearing was 0.13 times (31 December 2013: 0.08), calculated on the basis of total liabilities to total assets.

## CAPITAL STRUCTURE

As at 30 June 2014, the Group had shareholders' equity of approximately HK\$243,840,000 (31 December 2013: HK\$161,911,000).

### Placing of new shares under specific mandate

On 12 November 2013, the Company and CNI Securities Group Limited ("**Placing Agent**") entered into the conditional placing agreement, pursuant to which the Company had conditionally agreed to place through the Placing Agent, on a best endeavour basis, up to 190,000,000 new ordinary shares of HK\$0.10 each in the share capital of the Company ("**SM Placing Share**"), to not less than six placees who and whose ultimate beneficial owners are third party(ies) independent of and not connected with the Company and any of its connected persons or their respective associates, at a price of HK\$0.128 per SM Placing Share ("**SM Placing**") ("**SM Placing Agreement**"), which represents: (i) a discount of approximately 15.79% to the closing price of HK\$0.152 per share of the Company as quoted on the Stock Exchange on the date of the SM Placing Agreement; and (ii) a premium of approximately 0.16% over the average closing price of HK\$0.1278 per share of the Company as quoted on the Stock Exchange for the five consecutive trading days of the shares of HK\$0.10 each in the share capital of the Company immediately prior to the date of the SM Placing Agreement.

On 27 January 2014, completion of the SM Placing took place in accordance with the terms and conditions of the SM Placing Agreement. The Company received net proceeds of approximately HK\$23.1 million from the SM Placing. The net issue price was approximately HK\$0.122 per SM Placing Share. The aggregate nominal value of the SM Placing Shares under the SM Placing was HK\$19,000,000.

The Directors were of the view that the SM Placing can improve the gearing ratio of the Group as it will enlarge the base of the Company's shareholders' fund. The Directors considered that the SM Placing was in the interest of the Company and the shareholders of the Company as a whole.

The net proceeds from the SM Placing had been applied for the acquisition of 5% issued capital of Mighty Eight, details of which are set out in the announcement of the Company dated 29 January 2014.



## Capital reduction and share subdivision

On 4 February 2014, the Group announced to implement the capital reorganisations that (i) the par value of each of the issued existing shares will be reduced from HK\$0.10 to HK\$0.01 each by cancelling the paid up capital to the extent of HK\$0.09 per issued existing share (the “**Capital Reduction**”) and (ii) immediately following the Capital Reduction becoming effective, each authorised but unissued existing share with a par value of HK\$0.10 will be subdivided into ten (10) unissued new shares with par value of HK\$0.01 each (“**Share Subdivision**”) and (iii) the credits arising from the Capital Reduction will be applied towards setting off the accumulated losses of the Company as at the effective date of the Capital Reduction (if any) with the balance (if any) to be transferred to a distributable reserve called the distributable capital reduction reserve account or other reserve account of the Company which may be utilised by the Directors as a distributable reserve in accordance with the articles of association of the Company and all applicable laws and rules (including the GEM Listing Rules). The Capital Reduction and the Share Subdivision had become effective after 4:30p.m. (Hong Kong Time) on 11 July 2014. Details of these were set out in the Company’s circular dated 14 February 2014 and the Company’s announcements dated 4 February 2014, 10 March 2014 and 14 July 2014.

## Rights issue

On 21 March 2014, The Company announced to raise approximately HK\$71.7 million before expenses by way of rights Issue, on the basis of one rights share for every two existing shares held on the 23 April 2014 at the subscription price of HK\$0.128 per rights share (“**Rights Issue**”), the number of right shares proposed to be issue is 560,428,810 (“**Rights Shares**”). The Company and Win Fung Securities Limited (“**Underwriter**”) entered into the underwriting agreement (“**Underwriting Agreement**”), pursuant to which the Underwriter has conditionally agreed to underwrite all the Rights Shares, at a price of HK\$0.128 per Rights Shares with nominal value of HK\$0.10 each, which represents: (i) a discount of approximately 23.35% to the closing price of HK\$0.167 per share of the Company as quoted on the Stock Exchange on 20 March 2014, being the full trading date of the shares of the Company on the Stock Exchange immediately prior to the date of Underwriting Agreement; (ii) a discount of approximately 22.52% to the closing price of approximately HK\$0.1652 per share of the Company for the five consecutive trading days ended on 20 March 2014, being the full trading date of the shares of the Company on the Stock Exchange immediately prior to the date of Underwriting Agreement; and (iii) a discount of approximately 26.18% to the average closing price of approximately HK\$0.1734 per share of the Company for the ten consecutive trading days ended on 20 March 2014, being the full trading date of the shares of the Company on the Stock Exchange immediately prior to the date of Underwriting Agreement; (iv) a discount of approximately 16.88% to the theoretical ex-rights price of approximately HK\$0.154 per share of the Company based on the closing price of HK\$0.167 per share of the Company as quoted on the Stock Exchange on 20 March 2014, being the full trading date of the shares of the Company on the Stock Exchange immediately prior to the date of Underwriting Agreement. The completion of the Rights Issue took place on 21 May 2014. Details of these were set out in the Company’s prospectus dated 24 April 2014 and the Company’s announcements dated 21 March 2014 and 20 May 2014.

The net proceeds from the Rights Issue was approximately HK\$68.8 million and was intended to apply (i) as to approximately HK\$2 million for developing the Group's mobile-online game business, including design and research and development of mobile-online games and identifying and securing intellectual property rights, and such HK\$2 million was used to pay up the registered capital of a wholly owned subsidiary of the Company in August 2014 as set out in the Company's announcement dated 2 July 2014; (ii) as to approximately HK\$61.8 million for the acquisition of 13% issued share capital of Mighty Eight Investments Limited, details of which are set out in the announcement of the Company dated 2 April 2014 and circular of the Company dated 19 June 2014, and completion of such acquisition took place on 14 July 2014; and (iii) HK\$5 million of which was intended to be applied for general working capital of the Group.

### Issue of shares under general mandate

On 6 June 2014, the Company and China New Economy Fund Limited (the "**Subscriber**") entered into a subscription agreement (the "**Subscription Agreement**") pursuant to which the Subscriber has conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, 224,166,000 new ordinary shares of the Company (the "**Subscription**") at subscription price of HK\$0.10 per each, which represent: (i) a discount of approximately 9.09% to the closing price of HK\$0.11 per share of the Company as quoted on the Stock Exchange on the date of the Subscription Agreement; and (ii) a discount of approximately 10.87% to the average of the closing price of HK\$0.1122 per share of the Company as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the Subscription Agreement; and (iii) a discount of approximately 12.20% to the average of the closing price of HK\$0.1139 per share of the Company as quoted on the Stock Exchange for the last ten consecutive trading days immediately prior to the date of the Subscription Agreement.

On 16 June 2014, completion of the Subscription took place in accordance with the terms and conditions of the Subscription Agreement. The net proceeds of the Subscription was HK\$22.2 million and was intended to apply (i) as to approximately HK\$5.2 million for funding the consideration of the subscription of 125 new shares in Youle Holdings Limited at the subscription price of an aggregate of RMB4,166,700, details of which are set out in the announcement of the Company dated 28 May 2014 and completion of such subscription is expected to take place in August 2014; and (ii) as to approximately HK\$17 million for general working capital of the Group.

## FOREIGN EXCHANGE

The Group mainly generated revenue and incurred costs in Hong Kong dollars, Renminbi, Singapore dollars and US dollars. The impact of foreign exchange exposure of the Group is minimal.

In accordance with the Group's conservative treasure policy, the Group did not enter any derivative product for hedging during the period. But, the Group will keep monitoring the foreign currency risk and consider any tool for the hedging if necessary.



## CHARGE ON THE GROUP'S ASSETS

As at 30 June 2014, the Group did not have any charge on assets. As at 31 December 2013, the investment property of the Group was charged to secure a general banking facility granted to the Group.

## CAPITAL COMMITMENTS

As at 30 June 2014, the Group had capital expenditure commitments contracted for acquiring fixed assets of approximately HK\$3,757,000 (31 December 2013: HK\$294,000).

## CONTINGENT LIABILITIES

As at 30 June 2014, the Group did not have any material contingent liabilities (31 December 2013: Nil).

## EMPLOYEES REMUNERATION POLICIES

As at 30 June 2014, the Group had approximately 210 employees (31 December 2013: 210). Staff (including Directors) salaries, allowances and bonuses totaled approximately HK\$48,590,000 for the period under review (for the six months ended 30 June 2013: HK\$2,487,000), of which HK\$44,155,000 (six months ended 30 June 2013: Nil) was attributable to the Group's health check business, which the Group commenced in October 2013. The Group continues to maintain and upgrade the capabilities of its workforce by providing them with adequate and regular training.

Remuneration of employee is determined by reference to industry practices and performance, qualification and experience of individual employee.

The emolument policy of the Directors of the Group are decided by the Board and recommendation of the Remuneration Committee, having regard to merit, qualifications and competence.

On top of regular remuneration, discretionary bonus and share options may be granted to employees and Directors by reference to the Group's performance as well as individual's performance. Other benefits include contributions to statutory mandatory provident fund scheme and medical scheme to our employees.

The Company adopted the Share Option Scheme on 10 November 2010 and as at the date of adoption of the Share Option Scheme the Board is authorised, at its absolute discretion, to grant options to eligible participants including any employee, contracted celebrity, advisor, consultant, service provider, agent, customer, partner or joint-venture partner of the Group (including any Director, whether executive or non-executive and whether independent or not, of the Group) who is in full-time or part-time employment with the Group at the time when an option is granted to such employee, or any person who, in the sole discretion of the Board, have contributed or may contribute to the Group. Details of share options granted and outstanding during the period under review are set out in the paragraph headed "Share Option Scheme" of this report.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 30 June 2014, the interests or short positions of each Director and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) 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 which they were taken or deemed to have under such provisions of the SFO, (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii) were required, pursuant to the Rules 5.46 to 5.47 of the GEM Listing Rules relating to the securities transactions by Directors to be notified to the Company and the Stock Exchange were as follows:

### (i) Long position in the shares of the Company

Name of Director	Capacity	Number of ordinary shares involved	Approximate Percentage (Note 2)
Zhang Xiongfeng	Interest through controlled corporation	381,078,000 (Note 1)	20.00%

Notes:

1. Pursuant to the subscription agreement entered between the Company and Turbo Pointer Limited (“**Turbo Pointer**”), these are 381,078,000 new ordinary shares of the Company proposed to be issued to Turbo Pointer, which is beneficially and wholly-owned by Mr. Zhang Xiongfeng, which is subject to shareholders’ approval at extraordinary general meeting of the Company to be held on 12 August 2014. As such, Mr. Zhang Xiongfeng is deemed to be interested in the 381,078,000 Shares by virtue of the SFO.
2. This is based on the total issued shares of the Company as at 30 June 2014, i.e. 1,905,452,430 shares.



## (ii) Long position in the underlying shares of the Company

Name of Director	Capacity	Number of underlying shares	Approximate Percentage (Note 2)
Zhang Xiongfeng	Beneficial owner	57,163,573 (Notes 3 and 5)	3.00%
Zhang Peiao	Beneficial owner	38,109,049 (Notes 4 and 5)	2.00%

### Notes:

3. These are 57,163,573 ordinary shares of the Company to be issued upon exercise of the share options conditionally granted to Mr. Zhang Xiongfeng.
4. These are 38,109,049 ordinary shares of the Company to be issued upon exercise of the share options conditionally granted to Mr. Zhang Peiao.
5. The grant of the options mentioned in notes 3 and 4 above are conditional upon:
  - a the approval by the shareholders of the Company at the general meeting of the Company in accordance with the Note to Rule 23.03(4) of the GEM Listing Rules;
  - b the approval of the refreshment of the total number of securities which may be issued upon exercise of all options to be granted under the Scheme (excluding options lapsed in accordance with the terms of the Scheme) and any other schemes of the Company must not in aggregate exceed 10% of the Shares in issue as at the date of approval of the Scheme (“**10% General Limit**”) by the shareholders at the general meeting of the Company; and
  - c the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, such number of shares which may fall to be allotted and issued pursuant to the exercise of the options granted under the refreshed 10% General Limit.

Save as disclosed above, as at 30 June 2014, none of the Directors or chief executives of the Company had, or was deemed to have, any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) 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 which they were taken or deemed to have under such provisions of the SFO, (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii) were required, pursuant to the Rules 5.46 to 5.47 of the GEM Listing Rules relating to the securities transactions by Directors to be notified to the Company and the Stock Exchange.

## SHARE OPTION SCHEME

Under the terms of a share option scheme (the “**Scheme**”) adopted by the Company on 10 November 2010, the Board is authorised, at its absolute discretion, to grant options to eligible participants including any employee, contracted celebrity, advisor, consultant, service provider, agent, customer, partner or joint-venture partner of the Group (including any Director, whether executive or non-executive and whether independent or not, of the Group) who is in full-time or part-time employment with the Group at the time when an option is granted to such employee, or any person who, in the sole discretion of the Board, have contributed or may contribute to the Group.

The purpose of the Scheme is to provide incentives and help the Group in retaining its existing employees and recruiting additional employees and to provide them with a direct economic interest in attaining the long term business objectives of the Company.

Details of the share options granted under the Scheme and outstanding during the period under review are as follows:

Category of eligible participants	Date of grant	Exercise price per share	Exercisable period	Option granted during the period under review
Directors	19 June 2014	HK\$0.14	1 January 2016–30 June 2016	95,272,622 (Note 1)
Others	19 June 2014	HK\$0.14	1 January 2016–30 June 2016	95,272,620 (Note 2)
				190,545,242 (Note 1)

Notes:

- On 19 June 2014, share options entitling the holders thereof to subscribe for an aggregate of 95,272,622 shares were conditionally granted to the two executive directors of the Company (as to 57,163,573 shares to Mr. Zhang Xiongfeng and as to 38,109,049 shares to Mr. Zhang Peiao). The grant of such options are conditional upon:
  - the approval by the shareholders of the Company at the general meeting of the Company in accordance with the Note to Rule 23.03(4) of the GEM Listing Rules;
  - the approval of the refreshment of 10% General Limit by the shareholders at the general meeting of the Company; and
  - the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, such number of shares which may fall to be allotted and issued pursuant to the exercise of the options granted under the refreshed 10% General Limit.
- These options were outstanding as at 30 June 2014.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTEREST

As at 30 June 2014, the following person (other than Directors or chief executive of the Company) had, or was deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or was recorded in the register required to be kept by the Company under Section 336 of Part XV of the SFO:

### Long position in Shares of the Company

Name of Shareholder	Capacity	Number of ordinary shares	Approximate Percentage (Note 2)
China New Economy Fund Limited	Beneficial owner	274,608,000 Shares	14.41%
Turbo Pointer	Beneficial owner	381,078,000 Shares (Note 1)	20.00%

#### Notes:

1. Pursuant to the subscription agreement entered by the Company and Turbo Pointer on 18 June 2014, these are 381,078,000 new ordinary shares of the Company proposed to be issued to Turbo Pointer Limited, which is beneficially and wholly-owned by Mr. Zhang Xiongfeng, which is subject to shareholder's approval at extraordinary general meeting of the Company to be held on 12 August 2014. As such, Mr. Zhang Xiongfeng is deemed to be interested in the 381,078,000 Shares by virtue of the SFO.
2. This is based on the total issued shares of the Company as at 30 June 2014, i.e. 1,905,452,430 shares. Save as disclosed above, as at 30 June 2014, the Directors and the chief executive of the Company were not aware of any other person (other than a Director or chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares, which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or was recorded in the register required to be kept under Section 336 of Part XV of the SFO.

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

There were no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities during the six months ended 30 June 2014.

## **COMPETING INTERESTS**

As at 30 June 2014, none of the Directors nor their respective close associates (as defined in the GEM Listing Rules) had an interest in a business, apart from the businesses of the Group, that compete or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

During the six months ended 30 June 2014, 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. The Company had also made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding Directors' securities transactions during the six months ended 30 June 2014.



## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving and upholding good corporate governance practices that promote greater transparency and quality of disclosure as well as more effective internal control.

The Company has complied with the code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 15 of the GEM Listing Rules (the “**Code Provision**”) during the six months ended 30 June 2014, save for the deviation set out below:

The Code Provision A.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. During the period from 1 January 2014 to 29 January 2014, the Company did not have any offices with the title of “chief executive officer” as the duties of chief executive officer was discharged by the executive Directors collectively by undertaking the day-to-day management of the Company’s business, whereas the chairman is responsible for management of the Board and strategic planning of the Group. The Board considers that the vesting of the roles of chief executive officer into the executive Directors will not impair the balance of power and authority within the Board as all major decisions are made in consultation with members of the Board during the period from 1 January 2014 to 29 January 2014.

As the workload of the executive Directors have been increasing due to the recent business development of the Group, the Board considers that the appointment of a chief executive officer will lead to more effective implementation of the overall strategy and ensure smooth operation of the Group. As such, the Company appointed Mr. Zhang Peiao as an executive Director and chief executive officer of the Company on 30 January 2014. Since 30 January 2014, the roles of chairman and chief executive officer have been segregated and have not been exercised by the same individual. The chairman provides leadership, management for the Board whereas the chief executive officer is responsible for the Group’s business development and daily management generally.

The Code Provision A.4.1 stipulates that non-executive Directors should be appointed for a specific term, subject to re-election. Given that all independent non-executive Directors (“**INEDs**”) are subject to the provisions of retirement by rotation at least once every three years at annual general meeting under the articles of association of the Company (the “**Articles**”), the Directors are of the view that such provision in the Articles has been able to safeguard corporate governance of the Company after taking into account the scope of works to be carried out by the INEDs, and therefore there are no specified term of appointment for the INEDs and they will continue to hold offices unless terminated by either party giving to the other not less than one month notice in writing.

## AUDIT COMMITTEE

An audit committee of the Company (the “**Audit Committee**”) was established with written terms of reference in compliance with the Rules 5.28 and 5.29 of the GEM Listing Rules and Code Provision C.3.3. The Audit Committee must consist of a minimum of three members, all of whom must be non-executive Directors, at least one of whom must have appropriate professional qualification or accounting or related financial management expertise. There are three members in the Audit Committee comprising three INEDs, namely Mr. Wong Siu Keung, Joe, Mr. Wong Ching Yip and Mr. Luk Chi Shing. Mr. Wong Siu Keung, Joe, is the chairman of the Audit Committee. The primary duties of the Audit Committee are mainly to review the Company’s financial information, reporting process, internal control procedures, risk management system, audit plan, relationship with external auditors and to review arrangements to enable employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Group’s unaudited condensed consolidated results for the six months ended 30 June 2014 have been reviewed by the Audit Committee, which is of the opinion that the preparation of such results complied with the applicable accounting standards, the GEM Listing Rules and that adequate disclosure have been made.

On behalf of the Board  
**China Mobile Games and Cultural Investment Limited**  
**Zhang Xiongfeng**  
*Chairman*

Hong Kong, 8 August 2014

*As at the date of this report, the Board comprises (i) three executive Directors, namely Mr. Zhang Xiongfeng, Mr. Zhang Peiao and Mr. Hung Kenneth, and (ii) three independent non-executive Directors, namely Mr. Wong Siu Keung, Joe, Mr. Wong Ching Yip and Mr. Luk Chi Shing.*