



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)

Third Quarterly Report 2014



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THIRD QUARTERLY RESULTS

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

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine months and three months ended 30 September 2014

	Notes	Nine months ended 30 September		Three months ended 30 September	
		2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Continuing operations					
Revenue	2	147,740	4,081	58,389	1,240
Cost of inventories sold/services		(28,823)	–	(15,479)	–
Other gains and losses		(655)	1,267	(893)	1,267
Other revenue and income		1,335	311	186	222
Employee benefits expenses		(73,139)	(4,063)	(25,739)	(1,576)
Depreciation		(19,120)	(148)	(4,217)	(50)
Other operating expenses		(36,462)	(4,970)	(11,503)	(2,388)
Share of results of associates		2,058	–	1,592	–
Finance costs		(1,498)	(3,125)	(802)	(1,136)
(Loss) profit before income tax		(8,564)	(6,647)	1,534	(2,421)
Income tax expense	3	(216)	(222)	(133)	(222)
(Loss) profit for the period from continuing operations		(8,780)	(6,869)	1,401	(2,643)
Discontinued operations					
(Loss) profit for the period from discontinued operations	7	(95)	(150)	684	(265)
(Loss) profit for the period		(8,875)	(7,019)	2,085	(2,908)
Other comprehensive (loss) income					
<i>Items that may be classified subsequently to profit or loss:</i>					
Exchange differences arising on translation		6	–	1	–
Fair value loss on available-for-sale investments		(23,290)	–	(1,700)	–
Other comprehensive loss for the period		(23,284)	–	(1,699)	–
Total comprehensive (loss) income for the period		(32,159)	(7,019)	386	(2,908)

	Note	Nine months ended 30 September		Three months ended 30 September	
		2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
(Loss) profit attributable to shareholders of the Company:					
– from continuing operations		(9,137)	(6,869)	874	(2,643)
– from discontinued operations		(73)	(150)	679	(265)
		(9,210)	(7,019)	1,553	(2,908)
(Loss) profit attributable to non-controlling interests:					
– from continuing operations		357	–	527	–
– from discontinued operations		(22)	–	5	–
		335	–	532	–
		(8,875)	(7,019)	2,085	(2,908)
Total comprehensive (loss) income attributable to:					
Shareholders of the Company		(32,495)	(7,019)	(147)	(2,908)
Non-controlling interests		336	–	533	–
		(32,159)	(7,019)	386	(2,908)
(Loss) earnings per share	5		(Restated)		(Restated)
From continuing and discontinued operations					
– Basic (HK cents)		(0.57)	(1.25)	0.07	(0.52)
– Diluted (HK cents)		(0.57)	(1.25)	0.07	(0.52)
From continuing operations					
– Basic (HK cents)		(0.57)	(1.23)	0.04	(0.47)
– Diluted (HK cents)		(0.57)	(1.23)	0.04	(0.47)

Notes to the unaudited condensed consolidated statements:

1. BASIS OF PREPARATION

The 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 (the "HKFRSs") and the disclosure requirements of the GEM Listing Rules.

The Results have been prepared under the historical cost basis, except for certain financial instruments which are measured at fair values. The principal accounting policies used in the preparation of the Results are consistent with those applied in the Company's annual audited 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 Results.

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

2. REVENUE

Revenue represents the aggregate of the net amounts received and receivable from third parties for the period. An analysis of the Group's revenue is as follows:

	Nine months ended 30 September		Three months ended 30 September	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Continuing operations				
Income from mobile-online game business and provision of games related integral marketing services	9,250	–	9,250	–
Loans interest and related income	131	4,081	–	1,240
Income from provision of medical diagnostic and health check services	138,359	–	49,139	–
	147,740	4,081	58,389	1,240

3. INCOME TAX EXPENSE

	Nine months ended 30 September		Three months ended 30 September	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Continuing operations				
Current tax:				
– Hong Kong	153	26	70	26
– the People's Republic of China (the "PRC")	73	–	73	–
	226	26	143	26
(Over) underprovision in prior years:				
– Hong Kong	(10)	196	(10)	196
Total income tax recognized in profit or loss	216	222	133	222

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

For the nine months ended 30 September 2014, under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the Group's PRC subsidiaries are subject to PRC EIT at the statutory rate of 25%.

4. INTERIM DIVIDEND

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

5. (LOSS) EARNINGS PER SHARE

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

From continuing and discontinued operations

	Nine months ended 30 September		Three months ended 30 September	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Loss) earnings				
(Loss) profit attributable to shareholders of the Company	(9,210)	(7,019)	1,553	(2,908)

	Nine months ended 30 September		Three months ended 30 September	
	2014	2013	2014	2013
	Number of shares		(Restated)	
Weighted average number of ordinary shares in issue	1,609,269,780	559,861,355	2,119,601,365	559,861,355

The computation of diluted (loss) earnings per share does not assume:

- (i) the exercise of the Company's outstanding share options for the nine months ended 30 September 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 nine months ended 30 September 2013 since they are anti-dilutive.

The weighted average number of ordinary shares in issue for the nine months and three months ended 30 September 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.

From continuing operations

	Nine months ended 30 September		Three months ended 30 September	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
(Loss) earnings:				
(Loss) profit for the period attributable to shareholders of the Company	(9,210)	(7,019)	1,553	(2,908)
Less: loss (profit) for the period from discontinued operations attributable to shareholders of the Company	73	150	(679)	265
(Loss) profit for the purpose of basic and diluted (loss) earnings per share from continuing operations	(9,137)	(6,869)	874	(2,643)

The denominators used are the same as those detailed above for both basic and diluted (loss) earnings per share.

From discontinued operations

	Nine months ended 30 September		Three months ended 30 September	
	2014	2013	2014	2013
(Loss) earnings per share:				
– Basic (HK cents)	(0.00)	(0.02)	0.03	(0.05)
– Diluted (HK cents)	(0.00)	(0.02)	0.03	(0.05)
(Loss) earnings:				
(Loss) profit for the period from discontinued operations attributable to shareholders of the Company (HK\$'000)	(73)	(150)	679	(265)

The denominators used are the same as those detailed above for both basic and diluted (loss) earnings per share.

6. UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to shareholders of the Company										
	Share capital	Share premium	Capital reduction reserve	Convertible notes reserve	Investment revaluation reserve	Translation reserve	Share options reserve	Accumulated losses	Total	Non-Controlling Interests	Total Equity
	HKS'000	HKS'000	HKS'000	HKS'000	HK'000	HK'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'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	-	-	-	-	-	-	-	(7,019)	(7,019)	-	(7,019)
At 30 September 2013 (unaudited)	55,770	110,004	-	13,809	-	-	-	(73,064)	106,519	-	106,519
At 1 January 2014 (audited)	93,086	143,717	-	-	-	-	-	(74,832)	161,911	831	162,742
(Loss) profit for the period	-	-	-	-	-	-	-	(9,210)	(9,210)	335	(8,875)
Other comprehensive (loss) income for the period	-	-	-	-	(23,290)	5	-	-	(23,285)	1	(23,284)
Total comprehensive (loss) income for the period	-	-	-	-	(23,290)	5	-	(9,210)	(32,495)	336	(32,159)
Shares issued	103,366	82,391	-	-	-	-	-	-	185,757	-	185,757
Capital reduction	(171,491)	-	81,470	-	-	-	-	90,021	-	-	-
Share-based payments	-	-	-	-	-	-	2,558	-	2,558	-	2,558
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	592	592
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	(120)	(120)
Capital contribution from a non-controlling shareholder of a subsidiary	-	-	-	-	-	-	-	-	-	2,700	2,700
At 30 September 2014 (unaudited)	24,961	226,108	81,470	-	(23,290)	5	2,558	5,919	317,731	4,339	322,070

7. DISCONTINUED OPERATIONS

During the nine months ended 30 September 2014, the Group disposed of its entire equity interest in Well In Technology Development Limited (“**Well In**”), previously a wholly-owned subsidiary of the Group. On 12 November 2014, the Group entered into a disposal agreement to dispose of the Group’s 90% interest in EPRO System (S) Pte Ltd. (“**EPRO**”), a then non-wholly owned subsidiary of the Group. Well In and EPRO are both engaged in the provision of IT services. Upon the completion of the disposal of EPRO which took place on 14 November 2014, the Group’s operations in IT business has ceased. The two disposals are effected to realign the Group’s business focus and resources in mobile-online game business and is in line with the Group’s business strategy.

The (loss) profit for the period from the discontinued operations is analysed as below.

	Nine months ended 30 September		Three months ended 30 September	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Loss of IT business for the period	(847)	(150)	(68)	(265)
Gain on disposal of IT business	752	–	752	–
	(95)	(150)	684	(265)

The results of IT business during the nine months ended 30 September 2014, which have been included in the unaudited condensed consolidated statement of comprehensive income, were as follows:

	Nine months ended 30 September		Three months ended 30 September	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Revenue	2,749	48,207	991	70
Cost of inventories sold/services	(1,253)	(47,546)	(270)	(27)
Other revenue and income	16	–	–	–
Other operating expenses	(2,359)	(811)	(789)	(308)
Loss of IT business for the period	(847)	(150)	(68)	(265)
Attributable to:				
Shareholders of the Company	(825)	(150)	(73)	(265)
Non-controlling interests	(22)	–	5	–
	(847)	(150)	(68)	(265)

8. EVENTS AFTER REPORTING PERIOD

(a) Investment in Might Eight Investments Limited (“Mighty Eight”)

On 9 October 2014, the Company announced that the Group has agreed to acquire additional 25% of the issued share capital of Might Eight (the “**Acquisition**”) from Hydra Capital SPC for and on behalf of SP#1 for a consideration of HK\$252,045,200, among which, (i) as to HK\$40,000,000 will be settled by cash; (ii) as to HK\$70,000,000 will be settled, at the sole and absolute discretion of the Group, by cash and/or by issue of the promissory note of a principal amount of up to HK\$70,000,000 at the interest rate of 6% per annum to be issued by the Company; and (iii) the balance will be settled by way of allotment and issue of 645,660,000 consideration shares by the Company at the issue price of HK\$0.22 each upon completion of the Acquisition.

Upon completion of the Acquisition, the Group will hold a total of 49% of the issued share capital of Might Eight. The Acquisition is subject to shareholders’ approval at the extraordinary general meeting to be held by the Company. Details of the Acquisition are set out in the announcement of the Company dated 9 October 2014.

(b) Connected and related party transaction

On 10 October 2014, the Company entered into the subscription agreement with Turbo Pointer Limited (“**Turbo Pointer**”), pursuant to which the Company has conditionally agreed to allot and issue, and Turbo Pointer has conditionally agreed to subscribe for, 354,600,000 new shares of the Company at the subscription price of HK\$0.22 per subscription share (the “**Subscription**”). Turbo Pointer is beneficially and wholly-owned by Mr. Zhang Xiongfeng, a director of the Company, the chairman of the Board and a substantial shareholder of the Company (as defined under the GEM Listing Rules). 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 to be held by the Company. Details of the Subscription are set out in the announcement of the Company dated 10 October 2014.



MANAGEMENT DISCUSSION AND ANALYSIS

Business and financial review

For the nine months ended 30 September 2014 under review (the “**Period Under Review**”), the Group was principally engaged in (i) mobile-online game business and provision of games related integral marketing services; (ii) provision of IT services; (iii) money lending business; (iv) provision of medical diagnostic and health check services; and (v) securities investments business. The Group has paved its way to tap the potential and business opportunities in the prosperous mobile game market through a series of acquisition and entering into cooperation and license agreements. The Group changed its name to “China Mobile Games and Cultural Investment Limited” to further reflect its core business and make a clear direction about the its growing presence in the mobile-online game industry.

During the Period Under Review, the Group recorded a revenue from continuing operations of approximately HK\$147,740,000. As compared to revenue from continuing operations of approximately HK\$4,081,000 in the corresponding period in 2013, the increase in revenue was mainly attributable to the Group’s health check business and provision of games related integral marketing services, which were commenced in October 2013 and September 2014 respectively.

The Group recorded an unaudited consolidated profit attributable to the shareholders of the Company for the three months ended 30 September 2014 of approximately HK\$1,553,000, as compared with the unaudited consolidated loss attributable to the shareholders of the Company for the corresponding period in 2013 of approximately HK\$2,908,000, mainly attributable to (i) the profit recorded by the Group’s health check business (noting that the Group only commenced such business since October 2013); (ii) the share of results of Mighty Eight Investments Limited, which became an associate of the Company in September 2014; and (iii) gain on disposal of Well In Technology Development Limited which was included in the unaudited consolidated profit attributable to the shareholders of the Company from discontinued operations for the three months ended 30 September 2014. The Group recorded a decrease in the unaudited consolidated total comprehensive loss attributable to the shareholders of the Company for the three months ended 30 September 2014 of approximately HK\$147,000 as compared with the corresponding period in 2013 of approximately HK\$2,908,000, mainly attributable to the reasons mentioned above, notwithstanding the unrealized fair value loss on available-for-sale financial assets of approximately HK\$1,700,000 for the three months ended 30 September 2014.

Notwithstanding the unaudited consolidated profit attributable to the shareholders of the Company being recorded for the three months ended 30 September 2014 as mentioned above, the unaudited consolidated loss attributable to the shareholders of the Company for the Period Under Review amounted to approximately HK\$9,210,000 (2013: HK\$7,019,000). The increase in loss as compared with the corresponding period in 2013 was mainly attributable to (i) the profit of the Group for the three months ended 30 September 2014 being fully offset by the loss of the Group for the six months ended 30 June 2014 of approximately HK\$10,763,000; and (ii) the share-based payment costs of approximately HK\$2,558,000 for the shares options granted by the Company during the Period Under Review. The unaudited consolidated total comprehensive loss attributable to the shareholders of the Company for the Period Under Review was approximately HK\$32,495,000 (2013: HK\$7,019,000), which is mainly attributable to the reasons mentioned above and the unrealized fair value loss on available-for-sale financial assets of approximately HK\$23,290,000 for the Period Under Review.

Mobile-online game business

The Group aims to develop as one of the leading players in mobile-online game industry. During the Period Under Review, the Group has been ardently investing and developing the burgeoning mobile game business to implement the new business objective.

1. Investment in Mighty Eight Investments Limited (“Mighty Eight”)

In June, July and September 2014, the Group completed a series of acquisition of 24% issued share capital of Mighty Eight for an aggregate consideration of HK\$210,170,000. Since September 2014, such investment is reclassified from an available-for-sale investment into an associate of the Group and a profit of approximately HK\$1,061,000 was shared by the Group and recorded in the Group’s financial statements for the Period Under Review.

The major subsidiaries and controlled companies of Mighty Eight (“**Mighty Eight Group**”) include Something Big Technology Company Limited (“**HK SBT**”),上海頑迦網絡科技有限公司 (Shanghai Wanjia Network Technology Co., Ltd.*) (“**Shanghai Wanjia**”) and上海顛視數碼科技有限公司 (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 game “SanGuo-Mobile” (手機三國) is a very popular game developed by the above mentioned companies. In March and September 2014, “Voyage-Mobile” (手機大航海, also known as 航海爭霸) and a new SanGuo themed mobile-online card game “Sanguo Card” (Q卡三國) were launched respectively in various digital distribution platforms for mobile application software in the People’s Republic of China (the “**PRC**”) and South East Asia markets. It was targeted a new cartoon-style RPG sports mobile-online game “NBA Hero” (NBA英雄) will be launched in the fourth quarter of 2014. “NBA Hero” is an official licensed mobile game of the National Basketball Association (“**NBA**”) which combines the features of NBA elements with Chinese Sanguo characteristics.

* English translation is for identification purpose only



Other than the game development, Mighty Eight Group has initiated its strategy to publish and distribute the games developed by third-party developers to different regions. In September 2014, HK SBT has published a third-party developed mobile-online RPG game “天天掛機” (Tian Tian Gua Ji*) in the regions of Hong Kong, Macau Special Administrative Region of the PRC (“**Macau**”) and Taiwan. Recently, Shanghai Wanjia has also obtained two single player mobile games for distribution on Mobile Market (mm.10086.cn), namely “玉米連連看” (Corn Lianliankan*) which have been published in November 2014 and “大海賊戰紀” (Pirate Adventure*) which will be published in the fourth quarter of 2014.

2. *Games related integral marketing services*

In September 2014, the WOFE (as defined below) has made capital injection into 上海智趣廣告有限公司 (Shanghai Zhiqu Advertisement Co., Ltd.*) (“**Zhiqu**”), a PRC company which is principally engaged in the provision of games related integral marketing services, pursuant to the capital injection agreement entered into by the WOFE and Zhiqu on 25 July 2014 (“**Capital Injection Agreement**”). Zhiqu was owned as to 51% by the Group and became a non-wholly owned subsidiary of the Company. During the Period Under Review, revenue from the provision of games related integral marketing services amounted to approximately HK\$9,250,000 and a relevant profit of approximately HK\$219,000 was recorded.

3. *Investment in Youle Holdings Limited (“**Youle Holdings**”)*

In August 2014, the Group completed the subscription of 12.5% issued share capital of Youle Holding, at an aggregate subscription price of RMB4,166,700, which in turn owns the equity interest of 上海蠻錘數碼科技有限公司 (Shanghai WildHammer Digital Technology Co., Ltd.*) (“**Wildhammer**”). Wildhammer is the sole owner of the copyright and other intellectual property rights of the mobile-online game, “The Rune Rush” (“戰略傳奇”, also known as “囂張大冒險”). In June 2014, Wildhammer obtained the worldwide exclusive licenses to operate the mobile-online games, “全民武俠” (National Martial Arts Games*) and “怪物也囂張” (Monster Master*).

The investment in Youle Holdings Limited is classified as an associate of the Group. Since the completion of the subscription, the Group shared a loss of approximately HK\$162,000 during the Period under Review which is mainly due to the research and development cost and other operating costs incurred in the early stage of life cycle of the game “The Rune Rush”. Such game is currently undergoing optimization process under which the game will be upgraded to fix bugs or programming and technical issues to address players’ reactions and enhance the design of the game features.

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4. *Formation of a wholly foreign owned enterprise (“WFOE”)*

On 30 June 2014, the Group established the WFOE, namely 迹象信息技術(上海)有限公司 (Jixiang Information Technology (Shanghai) Co., Ltd.*), in the PRC which is principally engaged in the design, research and development of mobile-online games and identifying and securing intellectual property rights for onward sale and licensing. The WFOE have commenced the design and development of a new innovative RPG mobile-online game and incurred operating expenses of approximately HK\$651,000 during the Period Under Review. Such game is targeted to be launched in the first half year of 2015.

IT Business

The revenue of IT business for the Period Under Review was approximately HK\$2,749,000 (2013: HK\$48,207,000) and this segment recorded a loss of approximately HK\$847,000 (2013: HK\$150,000). In view of persistent severe competition in the IT business, during the Period Under Review, the Group disposed of its entire equity interest in Well In Technology Development Limited, which is engaged in the provision of IT services. Subsequent to the Period Under Review, on 12 November 2014, the Group entered into a disposal agreement to dispose of the Group’s 90% interest in EPRO System (S) Pte Ltd, which is also engaged in provision of IT services. Upon the completion such disposal which took place on 14 November 2014, the Group’s operations in IT business has ceased. The two disposals are effected to realign the Group’s business focus and resources in mobile-online game business and is in line with the Group’s business strategy.

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\$4,081,000). The average interest rate charged by the Group during the Period under Review was almost 29% per annum.

In January and May 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. In September 2014, one of the Group’s wholly-owned subsidiaries has obtained another money lenders licence under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong) 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.

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Health check business

Currently, the Group is operating an aggregate of 9 health check centres and 2 laboratories in Hong Kong. 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\$138,359,000 (2013: Nil) and net profit of approximately HK\$2,599,000 (2013: Nil) was recorded. Before being acquired by the Group on 30 September 2013, the Group's health check business recorded revenue of approximately HK\$127,840,000, representing 8.2% increase comparing to that of the corresponding period in 2013. Coupled with the decrease in depreciation expense, this segment has turned around from loss into profit during the Period Under Review.

In August 2014, the Group's interest in its health check business was reduced by 9.9% following the subscription of shares in Luck Key Investment Limited (together with its subsidiaries, "**Luck Key Group**") to Town Health International Medical Group Limited ("**Town Health**"), details of which are set out in the Company's announcement dated 26 August 2014. The Director considered that such disposal created a synergetic effect to the Group's health check business by leveraging on the expertise of Town Health in respect of provision and management of healthcare services which will benefit and complement the business development of Luck Key Group in Hong Kong and will enable Luck Key Group to raise capital. The Directors are regularly 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.

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\$222,000 (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, and leasing of investment properties. As the fair value of Universe International as at 30 September 2014 was lower than the cost of investment by the Group, the Group recorded an unrealized fair value loss of approximately HK\$23,290,000 as other comprehensive loss for the investment in 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 realize its investment in the properties and can provide capital and resources for the operation and development of the Group.


PROSPECTS

With the increasing popularity of various innovative portable devices, the number of mobile internet users in China is estimated to further increase rapidly. Mobile-online game development has experienced exponential growth in recent years and its market share as measured by revenue is expected to further increase. In view of this booming trend, the Group has made clear its vision of becoming a leading players in the mobile-online game industry. During the Period Under Review, the Group has actively involved in several investments and offloaded some non-core businesses, further demonstrated the determination of the Group to realize its business strategy.

Following the completion of the acquisition of additional 6% of the issued share capital of Mighty Eight in September 2014 resulting in the Group's total interest in Mighty Eight being increased to 24%, the Group announced that the Group has agreed to acquire additional 25% of issued share capital of Mighty Eight for a consideration of HK\$252,045,200 ("**Acquisition**") on 10 October 2014. Upon completion of the Acquisition, the Group will hold a total of 49% issued share capital of Mighty Eight. The Acquisition offers a good opportunity for the Group to make investment in the mobile-online game business, which is in line with the strategic development of the Group to improve the Group's position in the mobile-online game industry.

In September 2014, Timely Investments Limited (a wholly-owned subsidiary of the Company) ("**Timely Investments**") entered into the subscription agreement with, among others, Wang Yan Network Limited (網岩網路有限公司) ("**Wang Yan Network**"), pursuant to which Timely Investments had conditionally agreed to subscribe for, and Wang Yan Network had conditionally agreed to allot and issue, 20 new shares of Wang Yan Network for an aggregate subscription price of HK\$3,750,000, upon and subject to the terms and conditions of the subscription agreement. One of the conditions precedent to completion of the subscription is that Wang Yan Network shall, through Wang Yan Network (HK) Limited, acquire the entire equity interest of 上海網岩網絡科技有限公司 (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. 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 is undergoing the design and development of a new RPG mobile-online game namely 踢爆那西遊 (Kickings Journey to the West*), which is targeted to be launched in the first half year of 2015.

* English translation is for identification purpose only



In addition to strategic investment in mobile-online game designer and operator, the Group is also actively looking for potential intellectual property rights to develop mobile-online games. In March 2014, the Group entered into an exclusive licence agreement with Jade Dynasty Publications Limited (“**Jade Dynasty**”) pursuant to which Jade Dynasty granted 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.

As an integral part of the strategy to broaden the Group’s offerings on mobile-online games, on 13 November 2014, the Group entered into a capital injection agreement with 上海熱爪數碼科技有限公司 (Shanghai Re Zhua Digital Technology Co., Ltd.*) (“**Re Zhua**”), a PRC company which is principally engaged in the development of mobile-online games, pursuant to which the Group has conditionally agreed to inject RMB3 million into Re Zhua. Upon completion of such capital injection, the Group will hold 20% shareholding in Re Zhua. Such capital injection enables the Group to further develop its ability in development of mobile-online games.

Looking ahead, the Group will stay focus on the investment and development of mobile-online games riding on the wave of the sharp growth and soaring potential demand for games. In the meantime, the Directors will also source other business opportunities for diversifying the business portfolios with the aim to create better returns for the investors.

DIRECTORS’ AND CHIEF EXECUTIVE’S INTERESTS IN SECURITIES

As at 30 September 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:

* *English translation is for identification purpose only*

(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)	15.27%

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 issued to Turbo Pointer on 29 August 2014. Turbo Pointer is beneficially and wholly-owned by Mr. Zhang Xiongfeng. As such, Mr. Zhang Xiongfeng is deemed to be interested in the 381,078,000 Shares by virtue of the SFO. Mr. Zhang Xiongfeng is also the director of Turbo Pointer.
2. This is based on the total issued shares of the Company as at 30 September 2014, i.e. 2,496,122,430 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 (Note 3)	2.29%
Zhang Peiao	Beneficial owner	38,109,049 (Note 4)	1.53%

Notes:

3. These are 57,163,573 ordinary shares of the Company to be issued upon exercise of the unlisted physically settled share options granted to Mr. Zhang Xiongfeng pursuant to the share option scheme of the Company adopted on 10 November 2010.
4. These are 38,109,049 ordinary shares of the Company to be issued upon exercise of the unlisted physically settled share options granted to Mr. Zhang Peiao pursuant to the share option scheme of the Company adopted on 10 November 2010.

Save as disclosed above, as at 30 September 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 economics 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 and outstanding as at 30 September 2014
Directors	19 June 2014	HK\$0.14	1 January 2016–30 June 2016	95,272,622
Others	19 June 2014	HK\$0.14	1 January 2016–30 June 2016	95,272,620
				190,545,242

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTEREST

As at 30 September 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	300,006,000 Shares	12.02%
Turbo Pointer	Beneficial owner	381,078,000 Shares (Note 1)	15.27%

Notes:

1. Pursuant to the subscription agreement entered between the Company and Turbo Pointer, these are 381,078,000 new ordinary shares of the Company issued to Turbo Pointer on 29 August 2014. Turbo Pointer is beneficially and wholly-owned by Mr. Zhang Xiongfeng. As such, Mr. Zhang Xiongfeng is deemed to be interested in the 381,078,000 Shares by virtue of the SFO. Mr. Zhang Xiongfeng is also the director of Turbo Pointer.
2. This is based on the total issued shares of the Company as at 30 September 2014, i.e.2,496,122,430 shares.

Save as disclosed above, as at 30 September 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 nine months ended 30 September 2014.



COMPETING INTERESTS

As at 30 September 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 nine months ended 30 September 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 nine months ended 30 September 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 nine months ended 30 September 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 nine months ended 30 September 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

14 November 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.