SinoCom

SINOCOM SOFTWARE GROUP LIMITED
中 訊 軟 件 集 團 股 份 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 299)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2015

The directors (the "Directors") of SinoCom Software Group Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2015 (the "Period"), which has been reviewed by the auditors of the Company, RSM Nelson Wheeler, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants and also reviewed by the audit committee of the Company.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2015

		Six months ended 30 June	
		2015	2014
	Note	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)
			(restated)
Continuing operations			
Revenue	*3*	**119,648**	102,741
Cost of services		**(113,580)**	(80,932)
Gross profit		**6,068**	21,809
Administrative expenses		**(33,356)**	(26,135)
Fair value loss on contingent consideration		**(157,991)**	–
Other income, gains/(losses)		**1,562**	2,192
Loss from operations		**(183,717)**	(2,134)
Finance costs — Interest on convertible bonds		**(769)**	–
Share of result of an associate		**–**	(394)

	Note	Six months ended 30 June 2015 HK$'000 (unaudited)	2014 HK$'000 (unaudited) (restated)
Loss before tax		**(184,486)**	(2,528)
Income tax expense	*4*	**–**	–
Loss for the period from continuing operations		**(184,486)**	(2,528)
Discontinued operations			
(Loss)/profit for the period from discontinued operations	*5*	**(15,949)**	13,033
(Loss)/profit for the period	*6*	**(200,435)**	10,505
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		**(499)**	(4,726)
Exchange differences reclassified to profit or loss on deregistration of an associate		**269**	–
Other comprehensive income for the period, net of tax		**(230)**	(4,726)
Total comprehensive income for the period		**(200,665)**	5,779
(Loss)/profit for the period attributable to:			
Owners of the Company		**(199,119)**	9,694
Non-controlling interests		**(1,316)**	811
		(200,435)	10,505
Total comprehensive income for the period attributable to:			
Owners of the Company		**(199,603)**	5,005
Non-controlling interests		**(1,062)**	774
		(200,665)	5,779
(Loss)/earnings per share	*8*		
From continuing and discontinued operations			
Basic		**HK(15.13) cents**	HK0.87 cents
Diluted		**N/A**	N/A
From continuing operations			
Basic		**HK(13.89) cents**	HK(0.23) cents
Diluted		**N/A**	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2015

	Note	**30 June 2015** *HK$'000* **(unaudited)**	31 December 2014 *HK$'000* (audited)
Non-current assets			
Property, plant and equipment		**984**	13,433
Goodwill		**198,055**	7,308
Other intangible assets		**152,188**	–
Investment in an associate		**–**	2,730
Deposits paid for acquisitions of subsidiaries		**135,000**	385,000
Other deposits		**364**	1,610
Deferred tax assets		**–**	2,215
		486,591	412,296
Current assets			
Trade and other receivables	*9*	**73,560**	74,661
Investment receivables		**647**	102,459
Amount due from related companies		**1,645**	11,422
Amount due from a director		**15,888**	–
Current tax assets		**–**	1,742
Term deposits with initial terms of over three months		**–**	20,184
Bank balances and cash		**379,099**	176,642
		470,839	387,110
Assets classified as held for sale	*10*	**224,128**	–
Total current assets		**694,967**	387,110
Current liabilities			
Trade and other payables	*11*	**21,715**	132,351
Receipts in advance		**8,680**	–
Contingent consideration		**275,741**	–
Current tax liabilities		**16,809**	22,811
		322,945	155,162
Liabilities directly associated with assets classified as held for sale	*10*	**126,783**	–
Total current liabilities		**449,728**	155,162

	Note	30 June 2015 HK$'000 (unaudited)	31 December 2014 HK$'000 (audited)
Net current assets		**245,239**	231,948
Total assets less current liabilities		**731,830**	644,244
Non-current liabilities			
Convertible bonds		**169,119**	–
Deferred tax liabilities		**7,875**	780
Total non-current liabilities		**176,994**	780
NET ASSETS		**554,836**	643,464
Capital and reserves			
Share capital		**33,062**	32,896
Reserves		**451,901**	604,468
Equity attributable to owners of the Company		**484,963**	637,364
Non-controlling interests		**69,873**	6,100
TOTAL EQUITY		**554,836**	643,464

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

1. BASIS OF PREPARATION

These condensed financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

These condensed financial statements should be read in conjunction with the 2014 annual financial statements. The accounting policies and methods of computation used in the preparation of these condensed financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2014 except as stated below:

(a) Other intangible assets

(i) Internally-generated intangible assets — research and development expense

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally generated intangible asset arising from the Group's game operation is recognised only if all of the following conditions are met:

— An asset is created that can be identified (such as software and new processes);

— It is probable that the asset created will generate future economic benefits;

— The development cost of the asset can be measured reliably;

— The technical feasibility of completing the intangible asset so that it will be available for use or sale;

— The intention to complete the intangible asset and use or sell it; and

— The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.

Internally generated intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over their estimated useful lives. Where no internally generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

(ii) Intangible assets acquired separately — Copyrights

Copyrights are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over their estimated useful lives of 3 years.

(b) Non-current assets held for sale and discontinued operations

Non-current assets or disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. The Group must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets or disposal groups classified as held for sale are measured at the lower of the asset's or disposal group's previous carrying amount and fair value less costs to sell.

A discontinued operation is a component of the Group (i.e. the operations and cash flows of which can be clearly distinguished from the rest of the Group) that either has been disposed of, or is classified as held for sale, and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the component meets the criteria to be classified as held for sale in accordance with Hong Kong Financial Reporting Standards 5, if earlier. It also occurs when the component is abandoned or to be abandoned.

When an operation is classified as discontinued, a single amount is presented in the statement of profit or loss, which comprises:

— The post-tax profit or loss of the discontinued operation; and

— The post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

(c) Convertible bonds

Convertible loans which entitle the holder to convert the loans into a fixed number of equity instruments at a fixed conversion price are regarded as compound instruments consisting of a liability and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible loans and the fair value assigned to the liability component, representing the embedded option for the holder to convert the loans into equity of the Group, is included in equity as convertible bonds reserve. The liability component is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption.

Transaction costs are apportioned between the liability and equity components of the convertible bonds based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly to equity.

(d) Contingent consideration arising from business combination

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

These condensed financial statements have been prepared under the historical cost convention.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2015. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current period and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

3. SEGMENT INFORMATION

The operating segments of the Group, based on information reported to the chief operating decision maker (i.e. Chief Executive Officer) for the purposes of resources allocation and assessment of performance are analysed on the basis of the location of the customers' headquarters.

The Group has two operating segments as follows:

Software development — outsourcing software development services

Game operation — design, development and operation of the mobile and web games

The Group has carried on the software development business in two geographical locations, and the related assets are principally located in the PRC and Japan. The game operation business was carried on and the related assets are located in the PRC. Accordingly, there are three reportable segments of the Group which are regularly reviewed by the chief operating decision maker.

Segment revenue and results

The following is an analysis of revenue and results by operating segment of the Group:

Six months ended 30 June 2015

	Discontinued		Continuing			
	Software development in the PRC *HK$'000* **(unaudited)**	**Software development in Japan** *HK$'000* **(unaudited)**	**Software development in the PRC** *HK$'000* **(unaudited)**	**Software development in Japan** *HK$'000* **(unaudited)**	**Game operation in the PRC** *HK$'000* **(unaudited)**	**Total** *HK$'000* **(unaudited)**
Revenue	**865**	**163,800**	**2,758**	**88,493**	**28,397**	**284,313**
Cost of services *(Note a)*	**(1,082)**	**(155,447)**	**(3,452)**	**(78,597)**	**(31,531)**	**(270,109)**
Gross (loss)/profit	**(217)**	**8,353**	**(694)**	**9,896**	**(3,134)**	**14,204**
Administrative expenses	**–**	**(13,648)**	**–**	**(7,677)**	**(1,915)**	**(23,240)**
Segment results	**(217)**	**(5,295)**	**(694)**	**2,219**	**(5,049)**	**(9,036)**
Fair value loss on contingent consideration						**(157,991)**
Other income, gains/(losses)						**(4,347)**
Finance costs						**(769)**
Unallocated corporate expenses						**(24,688)**
Loss before tax						**(196,831)**

(a) Cost of services of game operation included amortisation of other intangible assets of approximately HK$24,494,000. Excluding this amortisation expense, game operation had an operating profit of approximately HK$19,445,000.

Six months ended 30 June 2014 (restated)

	Discontinued		Continuing			
	Software development in the PRC *HK$'000* (unaudited)	Software development in Japan *HK$'000* (unaudited)	Software development in the PRC *HK$'000* (unaudited)	Software development in Japan *HK$'000* (unaudited)	Game operation in the PRC *HK$'000* (unaudited)	Total *HK$'000* (unaudited)
Revenue	13,587	197,688	524	102,217	–	314,016
Cost of services	(13,782)	(177,705)	(843)	(80,089)	–	(272,419)
Gross (loss)/profit	(195)	19,983	(319)	22,128	–	41,597
Administrative expenses	(918)	(22,025)	–	(12,936)	–	(35,879)
Segment results	(1,113)	(2,042)	(319)	9,192	–	5,718
Share of result of an associate						(394)
Other income, gains/(losses)						28,141
Unallocated corporate expenses						(13,813)
Profit before tax						19,652

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales in either period.

Segment result represents the profit/(loss) of each segment without allocation of central administration cost, directors' emoluments, share of result of an associate, fair value loss on contingent consideration, other income, gains/(losses) and finance costs. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

Segment assets and liabilities

The following is an analysis of the assets and liabilities by operating segment of the Group:

At 30 June 2015

	Discontinued		Continuing			
	Software development in the PRC *HK$'000* **(unaudited)**	**Software development in Japan** *HK$'000* **(unaudited)**	**Software development in the PRC** *HK$'000* **(unaudited)**	**Software development in Japan** *HK$'000* **(unaudited)**	**Game operation in the PRC** *HK$'000* **(unaudited)**	**Total** *HK$'000* **(unaudited)**
Segment assets	**112,648**	**102,131**	**193**	**16,030**	**217,441**	**448,443**
Unallocated assets						**733,115**
Consolidated total						**1,181,558**
Segment liabilities	**18,706**	**124,497**	**–**	**–**	**25,872**	**169,075**
Unallocated liabilities						**457,647**
Consolidated total						**626,722**

At 31 December 2014 (restated)

	Discontinued		Continuing			
	Software development in the PRC *HK$'000* (audited)	Software development in Japan *HK$'000* (audited)	Software development in the PRC *HK$'000* (audited)	Software development in Japan *HK$'000* (audited)	Game operation in the PRC *HK$'000* (audited)	Total *HK$'000* (audited)
Segment assets	158,886	104,283	1,790	19,293	–	284,252
Unallocated assets						515,154
Consolidated total						799,406
Segment liabilities	21,350	128,720	–	–	–	150,070
Unallocated liabilities						5,872
Consolidated total						155,942

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than unallocated bank balances and cash, goodwill, deferred tax assets, investment in an associate, deposits paid for acquisitions of subsidiaries and assets used jointly by operating segments.

- term deposit with initial terms of over three months and bank balances and cash are allocated to operating segments based on the location of the term deposit with initial terms of over three months and bank balances and cash.

- all liabilities are allocated to operating segments other than deferred tax liabilities, contingent consideration, liability component of convertible bonds and liabilities for which operating segments are jointly liable.

- liabilities payable to the government department such as tax bureau and social security department are allocated to operating segments based on the location of the tax bureau and social security department.

4. INCOME TAX EXPENSE

	Six months ended 30 June	
	2015	2014
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
		(restated)
Current tax		
PRC Enterprise Income Tax	**5**	3,320
Japan income tax	**4,759**	5,241
	4,764	8,561
(Over)/under provision in prior years		
PRC Enterprise Income Tax	**(1,378)**	626
	3,386	9,187
Deferred tax		
Current period	**218**	(40)
	3,604	9,147
Representing:		
Continuing operations	**–**	–
Discontinued operations *(Note 5)*	**3,604**	9,147
	3,604	9,147

Under the law of PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rates of the PRC subsidiaries is 25% from 1 January 2008 onward except as describe below.

Pursuant to the EIT Law, a subsidiary, SinoCom Computer System (Beijing) Co., Ltd. ("SinoCom Beijing") is recognised as a high and new technology enterprise by the relevant PRC government authorities and SinoCom Beijing was entitled to enjoy a concessionary Enterprise Income Tax rate of 15% (2014: 10%) as compared to the unified tax rate of 25% in 2015.

A subsidiary, Dalian SinoCom High Technology Software Co., Ltd., was recognised as a Service Enterprise with Advanced Technology and was entitled to enjoy a concessionary Enterprise Income Tax rate of 15% (2014: 15%).

A subsidiary, Wuxi SinoCom High Technology Software Co., Ltd. was recognised as a software enterprise and was subject to exemption of Enterprise Income Tax for 2014 and 2015, and was entitled to enjoy a concessionary Enterprise Income Tax rate of 12.5% from 2016 to 2018.

A subsidiary, Beijing Kaixin Jiuhao Technology Co., Ltd. ("Kaixin Jiuhao") was recognised as a software enterprise and was subject to exemption of Enterprise Income Tax for 2015 and 2016, and was entitled to enjoy a concessionary Enterprise Income Tax rate of 12.5% from 2017 to 2019.

No provision for Hong Kong Profits Tax has been made in the condensed financial statements as the Group had no assessable profits in Hong Kong for either period.

Taxation arising in Japan comprises corporate tax, special corporate tax for reconstruction, local corporate tax, corporate enterprise tax, special local corporate tax and corporate inhabitant tax. Corporate tax is calculated at a progressive statutory rate of 15% (six months ended 30 June 2014: 15%) on the portion of taxable income not exceeding Japanese Yen ("JPY") 8,000,000 (equivalent to approximately HK$507,000, six months ended 30 June 2014: HK$612,000) and 25.5% (six months ended 30 June 2014: 25.5%) on the portion of taxable income in excess of JPY8,000,000. Special corporate tax for reconstruction is calculated at a fixed tax rate of 10% of corporate tax from 1 January 2014 to 31 March 2014. Local corporate tax is calculated at a fixed rate of 4.4% of corporate tax. Corporate enterprise tax is calculated at a progressive statutory rate of 3.65% (six months ended 30 June 2014: 2.95%) on the portion of taxable income not exceeding JPY4,000,000 (equivalent to approximately HK$254,000, six months ended 30 June 2014: HK$306,000), 5.465% (six months ended 30 June 2014: 4.365%) on the portion of taxable income in excess of JPY4,000,000 but not exceeding JPY8,000,000 and 7.18% (six months ended 30 June 2014: 5.78%) on the portion of taxable income in excess of JPY8,000,000.

Special local corporate tax is calculated at a fixed tax rate of 43.2% (six months ended 30 June 2014: 81%) or 67.4% (six months ended 30 June 2014: 148%) of corporate enterprise tax, depending on the amount of paid-in capital. Corporate inhabitant tax is calculated at a fixed tax rate of 12.9% (six months ended 30 June 2014: 17.3%) or 16.3% (six months ended 30 June 2014: 20.7%) of the corporate tax, depending on the amount of the corporate tax per annum, also with a fixed yearly amount from JPY70,000 (equivalent to approximately HK$4,000, six months ended 30 June 2014: HK$5,000) to JPY200,000 (equivalent to approximately HK$13,000, six months ended 30 June 2014: HK$15,000), depending on the headcount and capital of the entities.

5. DISCONTINUED OPERATIONS

Pursuant to the memorandum of understanding (the "MOU") dated 23 April 2015 and the amendment to the MOU dated 12 June 2015, SinoCom Holdings (BVI) Ltd ("SinoCom Holdings"), a wholly-owned subsidiary of the Company, will sell to Nomura Research Institute, Ltd. ("NRI") its information technology outsourcing business concerning NRI group customers by way of share disposal of the relevant holding companies within the Group.

On 17 June 2015, the Company, SinoCom Holdings and NRI entered into a sale and purchase agreement (the "BVI SPA"). Pursuant to the terms and conditions of the BVI SPA, subject to the fulfillment or waiver (as the case may be) of the condition(s) precedent to completion as set out in the BVI SPA, SinoCom Holdings has agreed to sell and NRI has agreed to purchase the entire issued share interests of SinoCom Development Holdings Limited ("SinoCom BVI"), for a consideration in the amount of HK$98,000,000, subject to adjustment, which shall be satisfied by cash.

On 17 June 2015, the Company, SinoCom Holdings and NRI entered into a sale and purchase agreement (the "Japan SPA"). Pursuant to the terms and conditions of the Japan SPA, subject to the fulfillment or waiver (as the case may be) of the condition(s) precedent to completion as set out in the Japan SPA, SinoCom Holdings has agreed to sell and NRI has agreed to purchase the entire issued share interests of SinoCom Japan Corporation ("SinoCom Japan") for a consideration in the amount of HK$92,000,000, subject to adjustment, which shall be satisfied by cash.

Pursuant to the Japan SPA, restructuring shall be conducted by way of revision of certain existing employment contracts and the repayment of the loan made by SinoCom Japan to SinoCom Holdings under the credit line agreement made between SinoCom Japan and SinoCom Holdings dated 24 February 2014.

SinoCom BVI, SinoCom Japan and the operating subsidiaries are principally engaged in the provision of software outsourcing development and technical support services, which has been classified and accounted for at 30 June 2015 as a disposal group held for sale (note 10).

A circular containing, amongst other things, details of the disposal and a notice convening the extraordinary general meeting of the Company is expected to be despatched to the shareholders of the Company on or before 30 September 2015.

Details of the disposals are set out in announcements of the Company dated 18 June 2015 and 31 July 2015.

The (loss)/profit for the period from the discontinued operation is set out below. The comparative figures in the condensed consolidated statement of profit or loss and other comprehensive income have been restated to represent the software development operation as a discontinued operation.

	2015	2014
	HK$'000	*HK$'000*
(Loss)/profit for the period from discontinued operations:		
Revenue	**164,665**	211,275
Cost of sales	**(156,529)**	(191,487)
Gross profit	**8,136**	19,788
Administrative expenses	**(14,572)**	(23,557)
Other income, gains/(losses)	**(5,909)**	25,949
(Loss)/profit before tax	**(12,345)**	22,180
Income tax expense	**(3,604)**	(9,147)
(Loss)/profit for the period from discontinued operations	**(15,949)**	13,033
(Loss)/profit for the period from discontinued operations include the following:		
Depreciation	**2,016**	4,683
Cash flows from discontinued operations:		
Net cash inflows from operating activities	**6,401**	16,336
Net cash inflows/(outflows) from investing activities	**19,329**	(21,457)
Net cash inflows/(outflows)	**25,730**	(5,121)

6. (LOSS)/PROFIT FOR THE PERIOD

(Loss)/profit for the period is arrived at after charging/(crediting):

	Six months ended 30 June	
	2015	2014
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
		(restated)
Allowance for doubtful debts	**–**	834
Amortisation of other intangible assets (included in cost of services)	**24,494**	–
Bad debts written off	**3,090**	–
Depreciation of property, plant and equipment	**4,156**	8,278
Loss on disposal of property, plant and equipment	**41**	228
Loss on deregistration of an associate	**418**	–
Operating lease rentals in respect of office premises	**13,733**	14,975
Research and development expenses (included in cost of services)	**6,386**	–
Net foreign exchange loss/(gain)	**2,921**	(13,481)
Share-based payments to consultants	**6,217**	–
Directors' remuneration	**8,974**	6,157
Interest income from bank balances	**(446)**	(662)
Interest income from short term investments	**(280)**	(4,156)
Fair value loss on contingent consideration	**157,991**	–
Government subsidies	**(280)**	(852)

7. DIVIDENDS

The directors of the Company do not recommend the payment of an interim dividend for the current period (2014: Nil).

8. (LOSS)/EARNINGS PER SHARE

	Six months ended 30 June	
	2015	2014
	'000	*'000*
	(unaudited)	(unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic (loss)/earnings per share	**1,316,142**	1,115,835

From continuing and discontinued operations

The calculation of the basic (loss)/earnings per share is based on the following:

	Six months ended 30 June	
	2015	2014
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
		(restated)
(Loss)/earnings		
(Loss)/profit for the purpose of calculating basic (loss)/earnings per share	**(199,119)**	9,694

From continuing operation

The calculation of the basic loss per share from continuing operation is based on the following:

	Six months ended 30 June	
	2015	2014
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
		(restated)
Loss		
(Loss)/profit for the purpose of calculating basic (loss)/earnings per share	**(199,119)**	9,694
Loss/(profit) for the period from discontinued operations (attributable to the Company)	**16,336**	(12,222)
Loss for the purpose of calculating basic loss per share from continuing operation	**(182,783)**	(2,528)

From discontinued operations

Basic (loss)/earnings per share from the discontinued operations is HK(1.09) cents per share (2014: HK1.88 cents per share), based on the (loss)/profit for the period from discontinued operations attributable to the owners of the Company of approximately HK$(16,336,000) (2014: approximately HK$12,222,000) and the denominator used is the same as that detailed above for basic (loss)/earnings per share.

No diluted earnings per share are presented as the Company did not have any dilutive potential ordinary sharing during the six months ended 30 June 2015.

9. TRADE AND OTHER RECEIVABLES

	30 June	31 December
	2015	2014
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Trade receivables	**58,192**	37,045
Other receivables	**14,513**	27,380
Other deposits	**75**	3,939
Prepayments	**780**	6,297
	73,560	74,661

As at 31 December 2014, other receivables included an amount of approximately HK$20,790,000 representing a loan to an independent third party and the interests accrued in respect of the loan. The loan is guaranteed by a related company of the independent third party, interest-bearing at 10% per annum and repayable within one year. The loan was repaid during current period.

The Group allows an average credit period of 30 to 210 days (31 December 2014: 30 to 210 days) for its trade customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

The aging analysis of trade receivables, net of allowance of doubtful debts presented based on dates on which revenue was recognised, is as follows:

	30 June 2015 *HK$'000* **(unaudited)**	31 December 2014 *HK$'000* (audited)
0–30 days	**24,405**	29,479
31–60 days	**1,855**	4,993
61–90 days	**10,006**	1,040
91–180 days	**6,359**	1,275
181–360 days	**9,861**	15
Over 360 days	**5,706**	243
	58,192	37,045

Aging of trade receivables which are past due but not impaired based on invoice dates:

	30 June 2015 *HK$'000* **(unaudited)**	31 December 2014 *HK$'000* (audited)
Over 360 days	**5,706**	243

10. ASSETS CLASSIFIED AS HELD FOR SALE

As described in note 5, the directors of the Company expect that the sales proceeds less costs to sell of the outsourcing software development business will be higher than the aggregate carrying amount of the related assets and liabilities. Therefore, no impairment loss was recognised neither on reclassification of the assets and liabilities as held for sale, nor as at 30 June 2015.

The major classes of assets and liabilities of the outsourcing software development business at the end of the reporting period are as follows:

	30 June 2015 ***HK$'000*** **(unaudited)**
Property, plant and equipment	**10,303**
Goodwill	**7,310**
Other deposits	**856**
Deferred tax assets	**1,607**
Trade and other receivables *(Note a)*	**38,122**
Current tax assets	**248**
Term deposits with initial terms of over three months	**18,693**
Cash and bank balances	**146,989**
Assets classified as held for sale	**224,128**
Trade and other payables *(Note b)*	**120,522**
Current tax liabilities	**5,871**
Deferred tax liabilities	**390**
Liabilities directly associated with assets classified as held for sale	**126,783**
Net assets classified as held for sale	**97,345**

(a) The aging analysis of trade receivables, net of allowance of doubtful debts presented based on dates on which revenue was recognised, is as follows:

	30 June 2015 *HK$'000* **(unaudited)**
0–30 days	**26,603**
31–60 days	**814**
61–90 days	**175**
	27,592

(b) The following is an aged analysis of trade payables based on invoice dates at the end of the reporting period:

	30 June 2015 *HK$'000* **(unaudited)**
0–30 days	**9,216**
31–60 days	**6,679**
61–90 days	**313**
91–180 days	**411**
	16,619

11. TRADE AND OTHER PAYABLES

	30 June 2015 *HK$'000* **(unaudited)**	31 December 2014 *HK$'000* (audited)
Trade payables	**–**	17,993
Wages and salaries payable	**2,589**	88,326
Accruals	**2,784**	7,089
Other tax payables	**902**	16,026
Other payables	**15,440**	2,917
	21,715	132,351

The average credit period of trade payables is 30 to 60 days.

The following is an aged analysis of trade payables based on invoice dates at the end of the reporting period:

	30 June 2015 *HK$'000* **(unaudited)**	31 December 2014 *HK$'000* (audited)
0–30 days	**–**	11,349
31–60 days	**–**	6,599
61–90 days	**–**	23
91–180 days	**–**	22
	–	17,993

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY AND MARKET OVERVIEW

In the six months ended 30 June 2015 (the "Period"), the web-based and mobile gaming industry in China was thriving. According to the China Gaming Industry Report published by the State Administration of Press, Publication, Radio, Film and Television of the People's Republic of China, the gaming industry's revenue generated in the upper half year of 2015 rose to RMB60.51 billion, up 21.9% from that of 2014. In particular, the revenue from the web-based gaming industry and mobile gaming industry in the People's Republic of China ("PRC") increased to RMB10.28 billion and RMB20.93 billion respectively, representing an increase of 12% and 67.2% in comparison with the same period last year.

With a record number of around 300 million web-based game users and mobile game users respectively, the web-based and mobile gaming industry in China is poised to benefit further from the greater Internet and mobile user penetration, and the rapid development of smart phones, social media and computer applications in the future.

Meanwhile, the cost-reduction pressure on enterprises engaged in the provision of software outsourcing development services for the Japanese market was increasing. Many enterprises opted for business localization to cut their development costs, thus impeding the business growth and development of provider of software outsourcing development services. The depreciating Japanese yen ("JPY") currency has also substantially increased the exposure of enterprises to currency risks, as all revenue derived from Japanese clients are payable in Japanese yen while the operating costs of enterprises which principally arise in the PRC are payable in RMB.

Against this backdrop, the Group intended to depart from the segment of the software outsourcing development business which is exposed to increasing currency risk of JPY, and to focus the resources on its PRC software outsourcing development business, as well as its new mobile and web-based gaming business.

BUSINESS REVIEW

Mobile and Web-based Gaming Business

With an aim to expand the business scope, the Group has been looking for acquisition opportunities with significant potential for long-term growth. Taking into account the potential of the mobile gaming industry, the Group announced on 10 December 2014 the acquisition of the entire issued share capital of Heroic Coronet Limited ("Heroic Coronet"), a wholly-owned subsidiary of Prime Castle Holdings Limited, at a consideration of HK$260 million. Upon completion of restructuring of all related companies, 北京開心就好科技有限公司 (Beijing Kaixin Jiuhao Technology Company Limited, "Kaixin Jiuhao") would become a 65% indirect subsidiary of Heroic Coronet. Kaixin Jiuhao is principally engaged in the design, development and operation of mobile and web-based games. The acquisition was completed on 30 January 2015.

In order to further develop and expand the gaming business, the Company entered into a share purchase agreement on 28 July 2015 to acquire the 100% equity interest in Kingworld Holdings Limited ("Kingworld Holdings") at a consideration of HK$450 million. Through a wholly-owned subsidiary of Kingworld Holdings, Star Creation Development Limited, a wholly foreign-owned enterprise (九合無限(北京)體育科技有限公司) will be established to enter various control agreements with 九合天下(北京)科技有限公司 (Kingworld (Beijing) Technology Co., Ltd.) ("Kingworld Beijing"). Kingworld Beijing is principally engaged in publishing, selling, developing and operating the sports-related wireless platform and interactive entertainment products, including online games, web-based games and games on wireless platform. On 4 June 2015, Kingworld Beijing has successfully obtained the license to develop the official wireless platform (including but not limited to Wechat) for Chinese Football Association Super League. The completion of the acquisition is expected to be completed on or before 31 December 2015.

Software Outsourcing Development Business

The software outsourcing development services in Japan was beset by the continuous depreciation of JPY and increasing developments costs that are mostly denominated in RMB. The gross profit of software outsourcing development services for the Japanese market for the Period recorded approximately HK$18,249,000, representing 56.66% decrease, as compared with that of 2014 amounting to approximately HK$42,111,000. The gross profit margin decreased to 7.23% for the Period from 14.04% for 2014.

On 17 June 2015, the Company, SinoCom Holdings (BVI) Limited ("SinoCom Holdings") as vendor and Nomura Research Institute, Ltd. ("NRI") as purchaser entered into a sale and purchase agreement, pursuant to which SinoCom Holdings agreed to sell and NRI agreed to purchase 474,671 shares in SinoCom Development Holdings Limited ("SinoCom BVI"), representing the entire issued share interests of SinoCom Holdings in SinoCom BVI, at a consideration of HK$98,000,000. As such, the information technology outsourcing business of SinoCom Holdings was sold to NRI. On the same day, the Company, SinoCom Holdings and NRI also entered into a sale and purchase agreement, pursuant to which SinoCom Holdings agreed to sell and NRI agreed to purchase 800 shares of SinoCom Japan Corporation ("SinoCom Japan"), representing the entire issued share interests of SinoCom Holdings in SinoCom Japan, at a consideration of HK$92,000,000. An extraordinary general meeting will be held to consider and, if thought fit, approve the above transactions.

Had the above transactions been completed, the Group will focus its resources on mobile and web-based game business, especially sports-related mobile entertainment.

SHARE CAPITAL AND MAJOR SHAREHOLDER

Following the completion of its disposal of approximately 16.8% of the issued share capital of the Company to Benefit Power Inc., and 4.9% of the issued share capital to Sunny Idea International Limited in March 2015, SJI (Hong Kong) Limited ceased to be the single largest shareholder and a substantial shareholder of the Company.

On 27 May 2015, the Company granted options to subscribe for an aggregate of 62,200,000 ordinary shares of nominal value of HK$0.025 to reward the contribution of directors and consultants of the Company under the Share Option Scheme adopted by the Company on 26 March 2014.

On 22 June 2015, bonds with a principal amount of HK$200,000,000 were issued to Zhongrong International Trust Co. Ltd., an independent third party. The net proceeds of the placing of approximately HK$194,000,000 will be applied towards the general working capital of the Group and development of mobile gaming and sports-related mobile applications businesses.

OUTLOOK

While mobile and web-based games are generally characterised by their short-lived cycles, sports-related games are expected to enjoy more sustainable popularity among the public. It is noteworthy that the soccer-related wireless platform and games to be developed by Kingworld Holdings are protected by exclusive rights granted from the Chinese Football Association Super League. Banking on the strong capabilities of Heroic Coronet and Kingworld Holdings to design, develop and distribute the mobile and web games, the Group is set to go from strength to strength in the blooming online gaming industry in China. Furthermore, the software market in China has been developing well, and the growth rate is expected to be higher, thus benefiting the software outsourcing services industry.

In addition, the Group will explore new ideas and seek a new drive for business development, and will also broaden its clientele and enable sharing of human resources. The Group hopes to enhance our operation and accelerate our business development through merger and acquisitions. The Board believes that the management will be able to lead the way to strengthen a customer-oriented development system, thus capitalizing on new opportunities in the market on an ongoing basis.

REVIEW OF RESULTS AND OPERATIONS

The Group's consolidated turnover of continuing operations for the period was approximately HK$119,648,000, representing an increase of approximately 16.46% when compared with approximately HK$102,741,000 for 2014. The increase was mainly attributable to the inclusion of new mobile gaming business that was acquired by the Group on 30 January 2015. The mobile gaming business contributed the turnover of approximately HK$28,397,000 for the period. Turnover generated from the continuing software outsourcing development business decreased from approximately HK$102,741,000 for 2014 to approximately HK$91,251,000 for the period, representing a decrease of approximately 11.18%.

The Group recorded the gross profit of approximately HK$6,068,000 for the period, representing a decrease of approximately 72.18%, as compared with approximately HK$21,809,000 for 2014. The game operation had the gross loss of approximately HK$3,134,000 for the period whereas the continuing software outsourcing development operation had the gross profit of approximately HK$9,202,000 for the period. The gross loss of the game operation solely resulted from the inclusion of the non-cash amortisation expense of other intangible assets of approximately HK$24,494,000 into cost of services. Other intangible assets were realized and recorded in the book as a result of the acquisition of Kaixin Jiuhao on 30 January 2015. Excluding this non-cash expense, the game operation would have a gross profit of approximately HK$21,360,000.

With respect to software outsourcing development business, the gross profit for the period was approximately HK$9,202,000, representing a decrease of approximately 57.81%, as compared with approximately HK$21,809,000 for 2014. The significant decrease in gross profit was mainly attributable to the decrease in turnover of approximately HK$11,490,000 resulted from continued depreciation of JPY against RMB and inflated direct cost in China.

Administrative expenses for the period increased to approximately HK$33,356,000 or by 27.63%, when compared to approximately HK$26,135,000 for 2014. The increase in administrative expenses was attributable to the inclusion of bad debt expense of approximately HK$3,090,000 and share-based payments to consultants of approximately HK$6,217,000 and the increase in directors' remuneration of approximately HK$2,817,000 that mainly resulted from share options issued to directors during the period.

Loss from operations for the period was approximately HK$183,717,000 an increase from approximately HK$2,134,000 for 2014. The increase in loss from operations was mainly attributable to the recording of fair value loss on contingent consideration for the acquisition of Kaixin Jiuhao of approximately HK$157,991,000 and the increase in administrative expenses of approximately HK$7,221,000.

Discontinued operations for the period was recorded a loss of approximately HK$15,949,000 as compared to a profit of approximately HK$13,033,000 for 2014.

Loss attributable to owners of the Company was approximately HK$199,119,000 for the period whereas profit attributable to owners of the Company was approximately HK$9,694,000 for 2014.

LIQUIDITY AND FINANCIAL RESOURCES

Since inception, the Group has no bank borrowing, and has funded its operations through equity funding and operating cash flow. The Company issued bonds with net proceeds of HK$194,000,000. The Group managed to maintain this strong cash generating capability during the year. As at 30 June 2015, the Company maintained a high level of cash and bank balances of approximately HK$379,099,000 and there was no bank borrowing as at that date.

SHARE CAPITAL

As at 30 June 2015, the number of shares in respect of which options had been granted but remaining outstanding under the Company's share option scheme adopted by the Company's shareholders on 2 April 2004 (and which had expired on 1 April 2014) (the "Old Share Option Scheme") was 3,216,000 shares. During the six months ended 30 June 2015, in respect of the Old Share Option Scheme, 6,664,000 shares were issued as a result of exercise of options by the grantees, options in respect of 200,000 shares were lapsed and no options were granted by the Company as the Old Share Option Scheme had already expired on 1 April 2014.

However, the share options granted under the Old Share Option Scheme prior to its termination shall continue to be valid and exerciseable in accordance with the Old Share Option Scheme.

A new share option scheme has been adopted by the shareholders of the Company on 26 March 2014 ("New Share Option Scheme"). As at 30 June 2015 and during the six months ended 30 June 2015, options in respect of a total of 62,200,000 shares have been granted by the Company and remained outstanding under the New Share Option Scheme. During the six months ended 30 June 2015, no other options were granted by the Company. As at 30 June 2015, the total maximum number of shares that may be issued under the New Share Option Scheme is 111,583,512 shares.

As at 30 June 2015, the issued capital of the Company was 1,322,499,128 shares (30 June 2014: 1,115,835,128 shares). As at 30 June 2015, the number of shares in respect of which options had been granted but remained outstanding under the Company's share option schemes (i.e. both the Old Share Option Scheme and the New Share Option Scheme) was 52,599,512 shares (30 June 2014: 12,620,000 shares), representing 4.9% (30 June 2014: 1.1%) of the total issued shares of the Company as at that date.

PLEDGE OF ASSETS

As at 30 June 2015, the Group had no pledged asset.

EMPLOYEE AND REMUNERATION POLICIES

The Group had 1,346 full time staff as at 30 June 2015 (30 June 2014: 1,510), representing a decrease of 11%. The decrease in head counts was mainly attributable to cost control in 2015. Most of our staff was engineers stationed in China. There were also 185 (30 June 2014: 161) employees in Japan; most of them were bridged system engineers working at customers' premises in Japan. Their remuneration, promotion and salary review were assessed based on their respective job responsibilities, work performance, professional experiences and the prevailing industry practice. The Group maintained social insurance schemes for retirement, unemployment, personal injury and hospitalisation for all of its employees in China and a housing provident fund system has also been implemented for its employees in China. Staff in Japan was enrolled under the pension fund and health scheme as required by Japanese law.

FOREIGN EXCHANGE AND CURRENCY RISKS

Since most of the Group's revenue was generated from software development outsourced from Japan, and was denominated in JPY while expenses were settled in Renminbi ("RMB"), any depreciation of JPY against RMB would reduce the Group's income measured in Hong Kong and have an adverse impact on the profitability of the Group. The management is of the view that there is no effective hedging tool suitable to reduce this exchange rate exposure in consideration of the monthly recurring nature of JPY revenue.

CONTINGENT LIABILITIES

As at 30 June 2015, the Group had no material contingent liability.

CAPITAL COMMITMENTS

The Group's capital commitments at the end of the reporting period are as follows:

	Six months ended 30 June	
	2015	2014
Contracted but not provided for:		
Acquisition of Kingworld Holdings	**315,000**	–

INTERIM DIVIDEND

The directors of the Company do not recommend payment of any interim dividend for the six month period ended 30 June 2015 (30 June 2014: Nil).

CORPORATE GOVERNANCE

During the six months period ended 30 June 2015, the Company has applied and complied with the applicable provisions as set out in the Corporate Governance Code contained in Appendix 14 (the "CG Code") of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited of the Listing Rules (the "Listing Rules"), except the deviation disclosed herein.

	Code Provision	**Deviation**	**Considered Reason for deviation**
A.2.1	The role of chairman and chief executive should be separate.	Mr. Zuo Jian Zhong was the co-chairman and undertook the duty the chief executive officer since 27 May 2015.	Mr. Wang Zhiqiang remained as the co-chairman of the Company. The Board considered that vesting the roles of chairman and CEO in the same person facilitates the execution of the Group's business strategies and maximizes effectiveness of its operation. The Board considered that there is a sufficient balance and division of responsibilities and authority.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct for securities transactions and dealing (the "Code of Conduct") by Directors on terms no less exacting than the required standard set out in Appendix 10 to Listing Rule (the "Model Code"). The Company has made specific enquiry of all Directors as to whether they have complied with the required standard set out in the Model Code and the Code of Conduct during the six months period ended 30 June 2015.

Save as disclosed above, all the Directors have confirmed that they have complied with the required standards set out in the Model Code and the Code of Conduct throughout the six months period ended 30 June 2015.

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

During the period under review, none of the Company or any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the period was the Company, any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the directors or the Chief Executive of the Company or any of their respective spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

CHANGE OF DIRECTORS' INFORMATION

Upon specific enquiry by the Company and following confirmations from Directors, save as otherwise set out in this announcement, there is no change in the information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the Company's last published annual report. The Directors' updated information is set out below:

Chui Man Lung, Everett, Independent Non-Executive Director

— Mr. Chui Man Lung, Everett was appointed as an independent non-executive Director, chairman of audit committee and member of remuneration committee of Sky Forever Supply Chain Management Group Limited (Stock Code: 8047) on 20 May 2015.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group, and to review the Company's annual report and to provide advice and comments thereon to the Board. The audit committee comprises of Mr. Chui Man Lung, Everett (Chairman), Mr. Han Chu and Mr. Wu Hong.

The Audit Committee has reviewed and approved the Group's unaudited consolidated interim results for the six months period ended 30 June 2015 ("Interim Results"). The Interim Results have been reviewed by RSM Nelson Wheeler, the auditors of the Company.

By order of the board

Wang Zhiqiang	**Zuo Jian Zhong**
Co-Chairman	*Co-Chairman*

Hong Kong, 20 August 2015

As at the date of this announcement, the Company's executive directors are Mr. Wang Zhiqiang, Mr. Zuo Jian Zhong, Mr. Tang Yau Sing, Mr. Liu Wei and Mr. Zhang Zhige and the independent non-executive directors are Mr. Chui Man Lung Everett, Mr. Han Chu and Mr. Wu Hong.