

First Quarterly Report **2014**



COMPUTECH HOLDINGS LIMITED

駿科網絡訊息有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 8081)

* For identification purpose only

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*This report, for which the directors (the “**Directors**”) of Computech Holdings Limited (the “**Company**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “**GEM Listing Rules**”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*

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

RESULTS

The board (the “**Board**”) of Directors (the “**Directors**”) of the Company announces the unaudited condensed consolidated results of the Company and its subsidiaries (together the “**Group**”) for the three months ended 31 March 2014 (the “**Results**”), together with the unaudited comparative figures for the corresponding period in 2013 as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 March 2014

	Notes	Three months ended 31 March	
		2014 HK\$'000	2013 HK\$'000
Revenue	2	43,635	47,138
Cost of inventories sold/services		(6,558)	(45,179)
Other gains and losses		24	(239)
Other income		560	88
Employee benefits expenses		(23,992)	(1,072)
Depreciation		(7,564)	(67)
Other operating expenses		(12,986)	(1,544)
Share of result of an associate		253	–
Finance costs		(165)	(866)
Loss before income tax		(6,793)	(1,741)
Income tax expense	3	(34)	–
Loss for the period		(6,827)	(1,741)
Other comprehensive loss for the period			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Fair value loss on available-for-sale investments		(13,473)	–
Total comprehensive loss for the period		(20,300)	(1,741)

		Three months ended 31 March	
	Note	2014 HK\$'000	2013 HK\$'000
Loss for the period attributable to:			
Shareholders of the Company		(6,660)	(1,741)
Non-controlling interests		(167)	–
		(6,827)	(1,741)
Total comprehensive loss attributable to:			
Shareholders of the Company		(20,133)	(1,741)
Non-controlling interests		(167)	–
		(20,300)	(1,741)
Basic loss per share – (HK cents)	4	(0.62)	(0.31)

Notes to the unaudited condensed consolidated results:

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 and investment properties which are measured at fair value. The principal accounting policies used in the preparation of these Results are consistent with those applied in the preparation of audited annual financial statements for the year ended 31 December 2013 with addition for the 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 these 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 net invoiced value of IT products sold, related IT services rendered, loans interest income and income from provision of medical diagnostic and health check services.

	Three months ended 31 March	
	2014 HK\$'000	2013 HK\$'000
Income from IT business	629	45,762
Loans interest income and related income	131	1,376
Income from provision of medical diagnostic and health check services	42,875	–
	43,635	47,138

3. INCOME TAX EXPENSE

	Three months ended 31 March	
	2014 HK\$'000	2013 HK\$'000
Hong Kong profits tax – current period	34	–

Provision for Hong Kong profits tax has been made at 16.5% on the estimated assessable profits for the three months ended 31 March 2014. For the three months ended 31 March 2013, no provision for Hong Kong profits tax was made in the financial statements as the Group had no assessable profits in Hong Kong for the period.

4. BASIC LOSS PER SHARE

Basic loss per share is calculated by dividing the loss for the period attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the period.

	Three months ended 31 March	
	2014 HK\$'000	2013 HK\$'000
Loss for the period attributable to shareholders of the Company	6,660	1,741
Shares		
Weighted average number of ordinary shares in issue during the period	1,065,968,731	557,699,728

For the three months ended 31 March 2014, diluted loss per share is not presented as there were no dilutive potential shares outstanding at the end of the reporting period. Diluted loss per share was not presented for the three months ended 31 March 2013 as the potential ordinary shares in respect of outstanding convertible notes were anti-dilutive.

5. INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend in respect of the three months ended 31 March 2014 (2013: Nil).

6. MOVEMENT OF RESERVES

	Share premium (Unaudited)	Investment revaluation reserve (Unaudited)	Convertible notes Reserve (Unaudited)	Accumulated loss (Unaudited)	Total (Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1.1.2013	110,004	–	13,809	(66,045)	57,768
Total loss and comprehensive loss for the period	–	–	–	(1,741)	(1,741)
At 31.3.2013	110,004	–	13,809	(67,786)	56,027
At 1.1.2014	143,717	–	–	(74,892)	68,825
Loss for the period	–	–	–	(6,660)	(6,660)
Other comprehensive loss for the period	–	(13,473)	–	–	(13,473)
Total comprehensive loss for the period	–	(13,473)	–	(6,660)	(20,133)
Shares issued upon placing	4,347	–	–	–	4,347
At 31.3.2014	148,064	(13,473)	–	(81,552)	53,039

MANAGEMENT DISCUSSION AND ANALYSIS

Business and financial review

During the period under review, the Group was principally engaged in (i) provision of IT services; (ii) money lending business; (iii) provision of medical diagnostic and health check services; and (iv) securities and property investments business. For the first three months of 2014, the Group has been ardently developing the burgeoning mobile gaming business by implementing both dynamic and organic growth strategy.

The Group recorded a revenue of approximately HK\$43,635,000 (2013: HK\$47,138,000), representing a decrease of approximately 7% compared to corresponding period in 2013. The revenue mainly represents the income generated from provision of medical diagnostic and health check services. The Group has scaled down its business on sales of IT hardware products during the period under review, resulting in a significant decrease in revenue from the IT business. The unaudited consolidated total comprehensive loss attributable to shareholders of the Company amounted to approximately HK\$20,133,000 (2013: HK\$1,741,000). The significant increase was mainly due to (i) the increase of operating expenses (namely, employee benefits expenses, depreciation and other operating expenses) attributable to the Group's health check business, which the Group commenced in October 2013 and the loss recorded by this business during the period under review; (ii) the Group has scaled down its business on sales of IT hardware products during the period under review, resulting in a significant decrease in revenue from the IT business and (iii) the unrealized fair value loss on available-for-sale financial assets included in other comprehensive loss.

IT business

The revenue of IT business for the period under review was approximately HK\$629,000 (2013: HK\$45,762,000). In view of persistent severe competition in the sale of hardware products, during the period under review, the Group dwindled its business of selling IT hardware products and allocated more resources on exploring the feasibility in developing software products, including but not limited to financial-related software, online games, mobile games as well as related service offerings.

Health check business

During the period under review, revenue from the health check business which was acquired by the Group on 30 September 2013 amounted to approximately HK\$42,875,000 (2013: Nil). The net loss of the segment for the relevant period amounted to approximately HK\$2,555,000. The Directors are reviewing the operations of health check centers and strive to improve the operational efficiency of its health check business so as to enhance its competitiveness in the market and profitability.

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\$1,376,000) which was attributed by the disposed money lending business. The average interest rate charged by the Group during the period was approximately 29% per annum.

On 29 January 2014, the Group entered into a sale and purchase agreement to dispose of Computech Online Limited and its subsidiaries (the "**Computech Online Group**"), which were engaged in part of the money lending businesses of the Group. Due to its historical unsatisfactory performance, the Directors consider that the disposal represents a good opportunity to realise the Group's investment in the Computech Online Group and can provide capital and resources for the operation and development of the Group. The Group intends to continue to engage in money lending business.

Securities investments

The Group's investment portfolio mainly comprises investments in listed securities. During the period under review, the Group recorded a loss on held for trading investments of approximately HK\$88,000 (2013: HK\$239,000).

In March 2014, the Group acquired approximately 9.91% 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 sub-licensing of film rights and film exhibition, leasing of investment properties. As the fair value of Universe International as at 31 March 2014 was lower than the cost of investment by the Group, the Group recorded an unrealized fair value loss of approximately HK\$13,473,000 as other comprehensive loss for the investment on Universe International which was classified as available-for-sale financial assets. The Group will continue optimizing its investment portfolios and create value for shareholders.

Properties investments

In March 2013, the Group acquired Funa Assets Limited ("**Funa Assets**") which principal assets are investment properties in Hong Kong. The investment properties are currently leased to an independent third party which bring steady income to the Group. During the period under review, the rental income generated from the investment properties were approximately HK\$363,000 (2013: Nil). The Directors will continue to lease out the investment properties or if opportunities arise, the Group may consider disposing of the investment properties in order to realise the investment which can provide capital and resources for the operation and development of the Group.

Prospects

In view of the booming trend in the mobile-online game industry, the Group aims to develop itself to be one of the leading players. During the period under review, the Group actively involved in several acquisitions, further demonstrated the determination of the Group to realize the new business strategy.

Following the proposed acquisition in January 2014, in which the Group agreed to acquire 5% issued share capital of the Mighty Eight Investments Limited (“**Mighty Eight**”) for a consideration of HK\$43.6 million (“**First Acquisition**”), on 2 April 2014, the Group announced that the Group has agreed to acquire additional 13% of issued share capital of the Mighty Eight (“**Second Acquisition**”). The consideration for the Second Acquisition is HK\$113,970,000 which shall be paid in cash. Upon completion of the First Acquisition and Second Subscription, the Group will hold a total of 18% shares of Mighty Eight. The acquisitions of the stake offers a good opportunity for the Group to make investment in the mobile-online games industry, which is in line with the Group’s development strategy to invest in mobile-online games business.

On 12 March 2014, the Group announced to form a wholly foreign owned enterprise in Shanghai which will be engaging in design, research and development of mobile-online games and identifying and securing intellectual property rights. The Group also appointed Something Big Technology Company Limited (“**HK SBT**”), a wholly-owned subsidiary of Mighty Eight, as the preference cooperation partner of the Group in relation to the operation, publication and distribution of the mobile-online games which will be developed by the Group from time to time.

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

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

DIRECTORS’ AND CHIEF EXECUTIVE’S INTERESTS IN SECURITIES

As at 31 March 2014, none of the Directors and chief executive of the Company had any interests and 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 Securities and Futures Ordinance (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 deemed or taken to have under such provisions of the SFO, or (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 rules 5.46 to 5.67 of the GEM Listing Rules relating to 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 12 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 Directors, whether executive or non-executive and whether independent or not, of the Group) who is in full-time or part-time employment with the Group at the time when an option is granted to such employee, or any person who, in the sole discretion of the Board, have contributed or may contribute to the Group.

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

No share options were granted, exercised, cancelled or lapsed during the three months ended 31 March 2014 and 2013 and no outstanding share option as at 31 March 2014.

SUBSTANTIAL SHAREHOLDERS’ AND OTHER PERSONS’ INTEREST

As at 31 March 2014, persons, other than Directors or chief executive of the Company, who have an interest or a short position in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Long positions in shares and underlying shares of the Company

Name of shareholders	Nature of interest	Existing shares and Underlying existing shares	Approximate % to the issued share capital
Win Fung Securities Limited	Beneficial owner	560,428,810 (L) 287,000,000 (S) (Note 1)	50.00%
Cheng Hei Yu	Interest in controlled corporation	560,428,810 (L) 287,000,000 (S) (Note 1)	50.00%
Trinity Finance Investment Limited	Other	287,000,000 (L) (Note 1)	25.61%
Trinity Worldwide Holding Limited	Interest in controlled corporation	287,000,000 (L) (Note 2)	25.61%
Ng Ting Kit	Interest in controlled corporation	287,000,000 (L) (Note 2)	25.61%

Notes:

1. Based on the notices of disclosure of interest of Win Fung Securities Limited and Cheng Hei Yu filed with the Stock Exchange and dated 24 March 2014, these interest are held by Win Fung Securities Limited which is owned as to 99% by Cheng Hei Yu.
2. Based on the notices of disclosure of interests of Trinity Finance Investment Limited, Trinity Worldwide Holding Limited and Ng Ting Kit filed with the Stock Exchange and dated 24 March 2014, these interests are held by Trinity Finance Investment Limited which is wholly-owned by Trinity Worldwide Holding Limited, which in turn is wholly-owned by Ng Ting Kit.
3. The letter (L) above denotes long position and the letter (S) above denotes short position.
4. The percentage shareholding in the Company is calculated by reference to the number of shares in issue as at 31 March 2014 (i.e. 1,120,857,620 shares).

Save as disclosed above, as at 31 March 2014, no other persons had an interest or a short position in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company pursuant to section 336 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 three months ended 31 March 2014.

COMPETING INTERESTS

As at 31 March 2014, none of the Directors nor their respective 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 three months ended 31 March 2014, the Company had 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 three months ended 31 March 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 three months ended 31 March 2014. Details of the deviation is set out in the relevant section 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 three months ended 31 March 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
Computech Holdings Limited
Zhang Xiongfeng
Chairman

Hong Kong, 9 May 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.