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 2013

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 2013 (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 2013

		Six months ended 30 June	
	Note	**2013** ***HK$'000*** **(unaudited)**	2012 *HK$'000* (unaudited)
Revenue	*3*	**225,863**	306,802
Cost of services		**(199,746)**	(229,843)
Gross profit		**26,117**	76,959
Administrative expenses		**(42,556)**	(48,725)
Other income, gains and losses		**(43,106)**	9,109
(Loss)/profit from operations		**(59,545)**	37,343
Gain on disposal of joint ventures		**–**	11,073
Share of result of an associate		**(996)**	(935)
Share of results of joint ventures		**–**	10,194
(Loss)/profit before tax		**(60,541)**	57,675
Income tax credit/(expense)	*4*	**3,007**	(17,436)
(Loss)/profit for the period	*5*	**(57,534)**	40,239

	Note	Six months ended 30 June 2013 HK$'000 (unaudited)	2012 HK$'000 (unaudited)
Other comprehensive income/(expense) after tax:			
Items that will be reclassified to profit or loss:			
Exchange differences on translating foreign operations		**8,911**	(3,705)
Fair value changes on available-for-sale financial assets		**9,004**	–
Income tax relating to fair value changes on available-for-sale financial assets		**(3,542)**	–
Other comprehensive income/(expense) for the period, net of tax		**14,373**	(3,705)
Total comprehensive (expense)/income for the period		**(43,161)**	36,534
(Loss)/profit for the period attributable to:			
Owners of the Company		**(57,418)**	39,555
Non-controlling interests		**(116)**	684
		(57,534)	40,239
Total comprehensive (expense)/income for the period attributable to:			
Owners of the Company		**(43,567)**	35,871
Non-controlling interests		**406**	663
		(43,161)	36,534
(Loss)/earnings per share	*7*		
Basic		**HK(5.15) cents**	HK3.55 cents
Diluted		**HK(5.15) cents**	HK3.54 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2013

	Note	**30 June 2013 HK$'000 (unaudited)**	31 December 2012 HK$'000 (audited)
Non-current assets			
Plant and equipment		**22,233**	12,826
Goodwill		**7,237**	7,110
Investment in an associate		**4,116**	5,334
Available-for-sale financial assets		**15,711**	–
Deposits paid for acquisition of plant and equipment		**–**	5,817
Other deposits		**565**	3,088
Amount due from a fellow subsidiary		**9,382**	9,867
Deferred tax assets		**2,849**	4,941
		62,093	48,983
Current assets			
Trade and other receivables	*8*	**85,808**	89,436
Available-for-sale financial assets		**23,302**	16,217
Loan receivables from related companies	*9*	**–**	88,293
Tax recoverables		**–**	1,736
Term deposits with initial terms of over three months		**88,320**	181,457
Bank balances and cash		**526,226**	437,786
		723,656	814,925
Current liabilities			
Trade and other payables	*10*	**91,256**	119,499
Amount due to ultimate holding company		**50**	454
Current tax liabilities		**18,197**	24,295
		109,503	144,248
Net current assets		**614,153**	670,677
Total assets less current liabilities		**676,246**	719,660
Non-current liabilities			
Deferred tax liabilities		**7,623**	7,876
NET ASSETS		**668,623**	711,784
Capital and reserves			
Share capital		**27,896**	27,896
Reserves		**635,939**	679,506
Equity attributable to owners of the Company		**663,835**	707,402
Non-controlling interests		**4,788**	4,382
TOTAL EQUITY		**668,623**	711,784

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2013

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 have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets which are carried at their fair values.

These condensed financial statements should be read in conjunction with the 2012 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 2012 except as stated below.

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 2013. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards ("HKAS"); 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 except as stated below.

a. Amendments to HKAS 1 "Presentation of Financial Statements"

Amendments to HKAS 1 titled Presentation of Items of Other Comprehensive Income introduce new terminology for statement of comprehensive income and income statement. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements.

The amendments to HKAS 1 require additional disclosures to be made in the other comprehensive section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the change. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

b. HKFRS 13 "Fair Value Measurement"

HKFRS 13 "Fair Value Measurement" establishes a single source of guidance for all fair value measurements required or permitted by HKFRSs. It clarifies the definition of fair value as an exit price, which is defined as a price at which an orderly transaction to sell the asset or transfer the liability would take place between market participants at the measurement date under market conditions, and enhances disclosures about fair value measurements.

The adoption of HKFRS 13 only affects disclosures on fair value measurements in the consolidated financial statements. HKFRS 13 has been applied prospectively.

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 was analysed on the basis of the location of the customers' headquarters.

(a) Information about profit or loss

	PRC ***HK$'000*** **(unaudited)**	**Japan** ***HK$'000*** **(unaudited)**	**Total** ***HK$'000*** **(unaudited)**
Six months ended 30 June 2013:			
Segment revenue from external customers	**23,573**	**202,290**	**225,863**
Cost of services	**(23,894)**	**(175,852)**	**(199,746)**
Gross (loss)/profit	**(321)**	**26,438**	**26,117**
Administrative expenses	**(1,169)**	**(35,551)**	**(36,720)**
Segment loss	**(1,490)**	**(9,113)**	**(10,603)**
Six months ended 30 June 2012:			
Segment revenue from external customers	13,894	292,908	306,802
Cost of services	(14,000)	(215,843)	(229,843)
Gross (loss)/profit	(106)	77,065	76,959
Administrative expenses	(1,135)	(39,791)	(40,926)
Share of results of joint ventures	–	10,194	10,194
Segment (loss)/profit	(1,241)	47,468	46,227

(b) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2013	2012
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Total profit or loss of reportable segments	**(10,603)**	46,227
Share of result of an associate	**(996)**	(935)
Gain on disposal of joint ventures	**–**	11,073
Other income, gains and losses	**(43,106)**	9,109
Unallocated corporate expenses	**(5,836)**	(7,799)
(Loss)/profit before tax	**(60,541)**	57,675

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

Segment profit/(loss) represents the profit/(loss) earned by each segment without allocation of central administration costs, directors' emoluments, share-based payment expenses, share of result of an associate, gain on disposal of joint ventures and other income, gains and losses. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

(c) Segment assets and liabilities

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

At 30 June 2013

	PRC	**Japan**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
	(unaudited)	**(unaudited)**	**(unaudited)**
Segment assets	**428,542**	**295,474**	**724,016**
Unallocated assets			**61,733**
Consolidated total			**785,749**
Segment liabilities	**52,395**	**45,849**	**98,244**
Unallocated liabilities			**18,882**
Consolidated total			**117,126**

At 31 December 2012

	PRC *HK$'000* (audited)	Japan *HK$'000* (audited)	Total *HK$'000* (audited)
Segment assets	419,162	390,135	809,297
Unallocated assets			54,611
Consolidated total			863,908
Segment liabilities	31,884	96,574	128,458
Unallocated liabilities			23,666
Consolidated total			152,124

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, available-for-sale financial assets, investment in an associate 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 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 (CREDIT)/EXPENSE

	Six months ended 30 June	
	2013	2012
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Current tax		
PRC Enterprise Income Tax	**28**	6,191
Japan income tax	**2,500**	6,773
PRC withholding tax	**–**	198
Enterprise Income tax on capital gain on disposal of joint ventures	**–**	16,809
	2,528	29,971
Over provision in prior years		
PRC Enterprise Income Tax	**(3,881)**	(3,113)
	(1,353)	26,858
Deferred tax		
Current period	**(1,654)**	(9,422)
	(3,007)	17,436

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 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% as compared to the unified tax rate of 25% from 2012 to 2014.

A subsidiary, SinoCom Shensoft Computer Technology (Shanghai) Company Limited was recognised as Service Enterprise with Advanced Technology in January 2011 and was subject to income tax at a tax rate of 15% from 2011 to 2013 in accordance with a joint circular of Ministry of Finance, the State Administration of Taxation, the Ministry of Commerce, the Ministry of Science and Technology and the National Development and Reform Commission, Cai Shui No. 63 of 2009.

Under the EIT Law, an income tax of 10% is imposed on the capital gain on disposal of joint ventures when the gain is realised from the tax perspective.

No provision for Hong Kong Profits Tax has been made in the condensed consolidated 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, 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 2012: 18%) on the portion of taxable income not exceeding Japanese Yen ("JPY") 8,000,000 (equivalent to approximately HK$629,000, six months ended 30 June 2012: HK$782,000) and 25.5% (six months ended 30 June 2012: 30%) 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 starting from 1 January 2013. Corporate enterprise tax is calculated at a progressive statutory rate of 2.95% (six months ended 30 June 2012: 2.95%) on the portion of taxable income not exceeding JPY4,000,000 (equivalent to approximately HK$314,000, six months ended 30 June 2012: HK$391,000), 4.365% (six months ended 30 June 2012: 4.365%) on the portion of taxable income in excess of JPY4,000,000 but not exceeding JPY8,000,000 and 5.78% (six months ended 30 June 2012: 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 81% or 148% of corporate enterprise tax, depending on the amount of paid-in capital. Corporate inhabitant tax is calculated at a fixed tax rate of 17.3% or 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$6,000, six months ended 30 June 2012: HK$7,000) to JPY200,000 (equivalent to approximately HK$16,000, six months ended 30 June 2012: HK$20,000), depending on the headcount and capital of the entities.

5. (LOSS)/PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2013	2012
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Depreciation of plant and equipment	**3,896**	2,358
Impairment losses on trade receivables	**–**	104
Loss on disposal of plant and equipment	**45**	1,388
Operating lease rentals in respect of office premises	**14,898**	13,590
Net foreign exchange loss	**49,718**	4,221
Directors' remuneration	**4,757**	4,211
Interest income from bank balances	**(2,671)**	(1,659)
Interest income from loan receivables	**(1,758)**	–
Interest income from short term investments	**(1,177)**	(6,394)
Government subsidies	**(1,000)**	(680)

6. DIVIDENDS

In respect of the financial year ended 31 December 2011, a final dividend of HK3.50 cents per share (total dividend of approximately HK$39,054,000) was declared on 22 May 2012 and were paid to the shareholders during the six months ended 30 June 2012.

The directors of the Company do not recommend the payment of an interim dividend for the current period.

7. (LOSS)/EARNINGS PER SHARE

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

	Six months ended 30 June	
	2013	2012
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
(Loss)/earnings		
(Loss)/profit for the period attributable to owners of the Company, for the purpose of basic and diluted (loss)/earnings per share calculation	**(57,418)**	39,555

Number of shares

	2013	2012
	'000	*'000*
	(unaudited)	(unaudited)
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share calculation	**1,115,835**	1,114,753
Effect of dilutive potential ordinary shares arising from share options issued by the Company	**–**	1,132
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share calculation	**1,115,835**	1,115,885

The effects of all potential ordinary shares are anti-dilutive for the six months ended 30 June 2013.

The computation of diluted earnings per share for the six months ended 30 June 2012 does not assume the exercise of certain of share options of the Company because the exercise price of those share options was higher than the average market price for shares for the six months ended 30 June 2012.

8. TRADE AND OTHER RECEIVABLES

	30 June	31 December
	2013	2012
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Trade receivables	**73,418**	76,281
Other receivables	**4,936**	4,252
Interest receivable from related companies *(Note)*	**–**	1,217
Other deposits	**4,484**	3,282
Prepayments	**2,970**	4,404
Total trade and other receivables	**85,808**	89,436

Note: The amount represents the interest receivable from related companies arising from the loans to the related companies (see note 9).

The Group allows an average credit period of 30 to 45 days, extending up to five months 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 2013 *HK$'000* **(unaudited)**	31 December 2012 *HK$'000* (audited)
0–30 days	**40,378**	41,697
31–60 days	**14,081**	19,140
61–90 days	**5,012**	3,828
91–180 days	**4,686**	3,584
181–360 days	**9,261**	8,032
	73,418	76,281

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

	30 June 2013 *HK$'000* **(unaudited)**	31 December 2012 *HK$'000* (audited)
91–180 days	**1,544**	908

9. LOAN RECEIVABLES FROM RELATED COMPANIES

	30 June 2013 *HK$'000* **(unaudited)**	31 December 2012 *HK$'000* (audited)
Loan receivables from related companies	**–**	88,293

Without authorisation and approval of the Board of Directors of the Company, SinoCom Japan Corporation ("SinoCom Japan"), a subsidiary of the Company, entered into a loan agreement with each of the three Japanese companies, namely SDI, Inc. ("SDI'), Falcon, Inc. ("Falcon"), and King Tech Corporation ("King Tech") (collectively, the "Borrowers") during the year ended 31 December 2012. The unsecured and committed loans facility was granted of up to JPY2,300,000,000 (equivalent to approximately HK$228,144,000), JPY1,530,000,000 (equivalent to approximately HK$151,143,000) and JPY400,000,000 (equivalent to approximately HK$39,515,000) to SDI, Falcon and King Tech on 9 July 2012, 15 August 2012 and 15 August 2012 with maturity on 28 December 2012 (later extended to 28 February 2013), 28 September 2012 and 28 December 2012 (later extended to 28 February 2013), respectively. On 9 October 2012, SinoCom Japan entered into another unsecured and committed loan agreement with Falcon pursuant to which SinoCom Japan agreed to grant a loan facility up to JPY500,000,000 (equivalent to approximately HK$49,745,000) with maturity on 28 December 2012 (later extended to 28 February 2013).

Loans ("Loans") with an aggregate amount of JPY5,505,000,000 (equivalent to approximately HK$538,992,000) had been drawn down by the Borrowers during the year ended 31 December 2012, of which JPY4,525,000,000 (equivalent to approximately HK$433,282,000) had been repaid during the year ended 31 December 2012. In respect of the amount repaid by SDI, an amount of JPY1,700,000,000 (equivalent to approximately HK$150,367,000) was settled on 28 December 2012 and the same amount was drawn down by SDI on 4 January 2013.

Loan receivables from related companies represent the outstanding balance of the Loans granted to SDI, Falcon and King Tech amounting to JPY330,000,000 (equivalent to approximately HK$29,731,000), JPY460,000,000 (equivalent to approximately HK$41,444,000) and JPY190,000,000 (equivalent to approximately HK$17,118,000), respectively, by SinoCom Japan at 31 December 2012. The Loans were unsecured and interest bearing at 2% per annum.

Subsequent to 31 December 2012, the interest rate of the extended loans was revised to 5% per annum on 16 January 2013 which was effective for the period from 29 December 2012 to 28 February 2013. The outstanding loans at 31 December 2012 were fully repaid by each of the Borrowers on 28 February 2013.

Details of the Loans are set out in announcements of the Company dated 30 January 2013, 1 March 2013, 23 April 2013 and 4 July 2013.

10. TRADE AND OTHER PAYABLES

	30 June 2013	31 December 2012
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Trade payables	**9,848**	11,372
Wages and salaries payable	**59,682**	84,121
Accruals	**11,780**	13,589
Other tax payables	**4,162**	5,690
Other payables	**5,784**	4,727
	91,256	119,499

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 2013	31 December 2012
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0–30 days	**7,301**	8,800
31–60 days	**2,547**	2,572
	9,848	11,372

CHAIRMEN STATEMENT

On behalf of the Board of Directors (the "Board") of the SinoCom Software Group Limited (the "Company"), we hereby present the unaudited interim report of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2013 (the "Period").

BUSINESS REVIEW

In the first half of 2013, the European debt crisis continued to plague the global financial market. The economy of China saw increasing downside risks while inflation stayed high. The unstable macro business climate and the continued depreciation of Japanese Yen ("JYP") significantly affected the Group's operation because the development of software outsourcing services for the Japanese market is still the focus of the Group. The Japanese market accounted for approximately 89.6% of total revenue of the Group for the six months ended 30 June 2013. When compared with revenue for the six months ended 30 June 2012, revenue for the same period in 2013 decreased by approximately 26.4%. The gross profit margin decreased to approximately 11.6% in the six months ended 31 December 2013 from approximately 25.1% in the corresponding period of 2012 resulting from the significant depreciation of JYP and increased direct cost of human resources in China. Exchange loss resulting from JPY depreciation affected the Group's result materially. As a result, the Group recorded net loss of approximately HK$57,534,000 for the six months ended 30 June 2013 whereas net profit of approximately HK$40,239,000 for the corresponding period of 2012. The net profit for the six months ended 30 June 2012 included the gain on disposal and share of results of SinoCom DIR Business Innovation Co., Ltd. and its subsidiaries ("Joint Ventures") in 2012.

The market has been complicated and volatile in the first half of 2013, and JPY remained under downward pressure. Therefore, the management established a principle of "Go from strength to strength and build a brighter future", requiring us to stick to our down-to-earth entrepreneurial spirit and take the opportunity of working together with our controlling shareholder for a brighter future. The management has also worked out a set of strategies, which include: (i) retaining existing customers while enlarging the clientele to boost sales revenue, (ii) expanding existing or building new development centres to lessen the downward pressure on JPY as well as the upward pressure on the cost of human resources in major cities of China; and (iii) rolling out a compensation policy linking salaries with results to enhance our efficiency. All these strategies are well on track.

At the same time, in order to secure more development projects, we continued to strengthen the co-operation with our controlling shareholder to enhance our sales competency and upstream development capabilities in Japan, aiming at making both parties the leading software development company in China and Japan in the medium term.

OUTLOOK

Looking ahead, the Group will explore new ideas and seek a new focus for business development, such as customer acquisition and sharing of human resources. We also hope to enhance our operation and accelerate our business development through merger and acquisitions, and active risk management will also be in place to control foreign exchange risks.

The Board believes the management will be able to lead the way to strengthen a customer-oriented development system, thus capitalising new opportunities in the market on an ongoing basis.

In view of facing the pressure of reducing income and thinner margin arising from JPY depreciation, the Group is going to take responsive measures a follows:

Firstly, we will enlarge our income sources by securing new projects from existing and new customers.

Secondly, we intend to expand and set up development centers in cities with lower living standard to attract more professionals, reduce costs and improve our profit margin.

Thirdly, we are committed to increase our productivity and provide customers with services of the best quality for the sake of striving for more order placements.

Fourthly, we will continue to implement an incentive policy which links remunerations with results, strengthen the communication channel for employees and lower our costs. Meanwhile, we will identify effective foreign exchange hedging tools to mitigate foreign exchange exposures.

REVIEW OF RESULTS AND OPERATIONS

The Group's consolidated turnover for the six months ended 30 June 2013 was approximately HK$225,863,000, representing a decrease of approximately 26.4% when compared to HK$306,802,000 in the corresponding period in 2012. The decrease was mainly attributable to the depreciation of JYP in which 89.6% of total turnover for the six months ended 30 June 2013 was denominated. Turnover generated from Japan decreased by approximately 30.9% from HK$292,908,000 in the corresponding period in 2012 to HK$202,290,000 in the six months ended 30 June 2013. However, turnover sourced from the PRC increased by approximately 69.6% to HK$23,573,000.

Gross profit for the six months ended 30 June 2013 decreased to approximately HK$26,117,000, representing a 66.1% decrease when compared with the gross profit of approximately HK$76,959,000 in the corresponding period in 2012. The Group's gross profit margin was approximately 11.6% for the six months ended 30 June 2013 (the corresponding period in 2012: 25.1%). JPY depreciation and inflated labour cost in the PRC contributed to the sharp decrease in gross profit margin.

Operating loss of approximately HK$59,545,000 was recorded in the six months ended 30 June 2013 when compared with the operating profit of approximately HK$37,343,000 in the corresponding period in 2012. The loss was mainly attributable to the decrease in gross profit by approximately HK$50,842,000 and the exchange loss of approximately HK$49,718,000 resulting from JYP depreciation.

Net loss attributable to owners of the Company was approximately HK$57,418,000 for the six months ended 30 June 2013 whereas net profit attributable to owners of the Company was approximately HK$39,555,000 for the corresponding period in 2012. The net loss attributable to owners of the Company was primarily because there was no gain on disposal and share of results of Joint Ventures and of the decrease in operating profit as mentioned above, but offset by income tax credit of approximately HK$3,007,000 in 2013 whereas income tax expense of approximately HK$17,436,000 in 2012.

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 Group managed to maintain this strong cash generating capability for the period. During the period, the Group financed its operations and investing activities solely with internally generated cash flows. The Company maintained a high level of cash and bank balances and term deposits with initial terms of over three months of approximately HK$614,546,000 and there was no bank borrowing as at 30 June 2013.

SHARE CAPITAL

As at 30 June 2013, the number of shares in respect of which options had been granted and remained outstanding under the Company's share option scheme was 15,360,000 (31 December 2012: 16,390,000), representing 1.4% (31 December 2012: 1.5%) of issued shares of the Company at that date.

PLEDGE OF ASSETS

As at 30 June 2013, the Group had not pledged any of its assets.

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2013, total headcount of the Group reached 1,456 breaking down into 1,291 in China and 165 in Japan. Employees are remunerated based on their performance, work experience and the prevailing market rates. Performance related bonuses are granted on a discretionary basis. Other employee benefits include pension fund, insurance and medical coverage, training programs and participation in the Group's share option scheme.

SHARE OPTION SCHEME

As at 30 June 2013, there were options for 15,360,000 ordinary shares of HK$0.025 each in the share capital of the Company (the "Share(s)") granted by the Company pursuant to the option scheme, as adopted by the shareholders of the Company on 2 April 2004 (the "Option Scheme"), which were valid and outstanding. No options were lapsed during the six months ended 30 June 2013.

INTERIM DIVIDEND

The directors of the Company do not recommend payment of any interim dividend for the six month period ended 30 June 2013 (2012: Nil).

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 month period ended 30 June 2013.

Save as disclosed above, all the Directors apart from Professor Liang Neng and Mr. Lee Kit Wah, the former independent non-executive 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 month period ended 30 June 2013. The Company is unable to obtain the relevant confirmations from Professor Liang Neng and Mr. Lee Kit Wah due to their resignation, and therefore is unable to fully ascertain whether the Company has complied with the required standard set out in the Model Code and Code of Conduct for the six months period ended 30 June, 2013.

CORPORATE GOVERNANCE

During the six month period ended 30 June 2013, the Company has applied and complied with the applicable provisions as set out in the Corporate Governance Code (revised on 1 April 2012) 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. Wang Zhiqiang has been both the chairman and the chief executive officer.	The Board considered that vesting the roles of chairman and CEO in the same person facilitates the execution of the Group business strategies and maximizes effectiveness of its operation. Further, as Mr. Kotoi Hirofumi served as co-chairman of the Board from 11 June 2012 to 1 March 2013, following which Mr. Zuo Jian Zhong has served as co-chairman of the Board since 1 March 2013, the Board considered that there is a sufficient balance and division of responsibilities and authority.

	Code Provision	Deviation	Considered Reason for deviation
A3.2	The Company should maintain on its website and the Exchange's website an updated list of its directors role and function.	The Company failed to maintain on its website an updated list of its directors role and function.	Due to inadvertent oversight, the Company failed to update itself regarding the latest changes to the CG Code, and failed to maintain the requisite information on the Company website and the Exchange's website.
A.5.6	The Company should have a policy concerning diversity of board members.	The Company failed to establish a Board Diversity Policy.	Due to inadvertent oversight, the Company failed to update itself on the recent changes of CG Code.
A.6.4	The Board should establish written guidelines for relevant employees in respect of securities dealing.	The Company did not have written guidelines for relevant employees in respect of securities dealing.	Due to inadvertent oversight, the Company failed to update itself regarding the latest changes to the CG Code, and failed to prepare relevant written guidelines.
A.6.5	The Directors should be provided with training on a regular basis and the training record should be properly maintained.	The Company failed to keep a proper and complete record of training provided to the Directors.	Due to inadvertent oversight, the Company failed to maintain a proper and complete training record.
C.1.2	Management should provide all members of the Board with monthly updates of the Group's business performance,	The Company did not provide all members of the Board with monthly updates of the Group's business performance.	Due to inadvertent oversight, the Company failed to update itself on the recent changes to CG Code.
D.3.1	The Board should establish terms of reference to perform Corporate Governance functions.	The Company failed to establish terms of reference to perform Corporate Governance functions.	Due to inadvertent oversight, the Company failed to update itself on the recent changes to CG Code.
E.1.4	The Board should establish a shareholders' communication policy.	The Company failed to establish a shareholders' communication policy.	Due to inadvertent oversight, the Company failed to update itself on the recent changes to CG Code.

The Company is taking remedial steps to address areas of deviation from the CG Code.

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.

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. Wu Hong and Mr. Yamamoto Yoshimasa.

The Audit Committee has reviewed and approved the Group's unaudited consolidated interim results for the six months period ended 30 June 2013 ("Interim Results"). The Interim Results have been reviewed by RSM Nelson Wheeler, the auditors of the Company.

SUSPENSION OF TRADING

Trading in the Shares was suspended from 9:00 a.m. on 2 April 2013 and will remain suspended.

By order of the board

Wang Zhiqiang — *Co-Chairman*

Zuo Jian Zhong — *Co-Chairman*

Hong Kong, 29 January 2014

As at the date of this announcement, the Company's executive directors are Mr. Wang Zhiqiang, Mr. Zuo Jian Zhong and Mr. Kotoi Hirofumi and the non-executive directors are Mr. Li Jian, Mr. Wang Xubing and Dr. Shi Chongming, and the independent non-executive directors are Mr. Chui Man Lung Everett, Mr. Wu Hong and Mr. Yamamoto Yoshimasa.