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 2014

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 2014 (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

		Six months ended 30 June	
		2014	2013
	Note	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)
Revenue	*4*	**314,016**	225,863
Cost of services		**(272,419)**	(199,746)
Gross profit		**41,597**	26,117
Administrative expenses		**(49,692)**	(42,556)
Other income, gains/(losses)		**28,141**	(43,106)
Profit/(loss) from operations		**20,046**	(59,545)
Share of result of an associate		**(394)**	(996)
Profit/(loss) before tax		**19,652**	(60,541)
Income tax (expense)/credit	*5*	**(9,147)**	3,007
Profit/(loss) for the period	*6*	**10,505**	(57,534)

	Note	Six months ended 30 June 2014 HK$'000 (unaudited)	2013 HK$'000 (unaudited)
Other comprehensive income:			
Items that will be reclassified to profit or loss:			
Exchange differences on translating foreign operations		**(4,726)**	8,911
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 for the period, net of tax		**(4,726)**	14,373
Total comprehensive income for the period		**5,779**	(43,161)
Profit/(loss) for the period attributable to:			
Owners of the Company		**9,694**	(57,418)
Non-controlling interests		**811**	(116)
		10,505	(57,534)
Total comprehensive income for the period attributable to:			
Owners of the Company		**5,005**	(43,567)
Non-controlling interests		**774**	406
		5,779	(43,161)
Earnings/(loss) per share	*8*		
Basic		**HK0.87 cents**	HK(5.15) cents
Diluted		**N/A**	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**30 June 2014** *HK$'000* **(unaudited)**	31 December 2013 *HK$'000* (audited)
Non-current assets			
Plant and equipment		**18,573**	19,057
Goodwill		**7,262**	7,333
Investment in an associate		**2,712**	3,124
Available-for-sale financial assets		**15,315**	14,690
Other deposits		**1,635**	425
Deferred tax assets		**973**	989
		46,470	45,618
Current assets			
Trade and other receivables	*9*	**112,997**	92,514
Amount due from a fellow subsidiary		**11,351**	1,272
Amount due from ultimate holding company		**107**	–
Tax recoverables		**467**	–
Term deposits with initial terms of over three months		**23,833**	25,180
Bank balances and cash		**527,873**	535,174
		676,628	654,140
Current liabilities			
Trade and other payables	*10*	**125,829**	111,628
Current tax liabilities		**24,493**	21,077
		150,322	132,705
Net current assets		**526,306**	521,435
Total assets less current liabilities		**572,776**	567,053
Non-current liabilities			
Deferred tax liabilities		**2,125**	2,181
NET ASSETS		**570,651**	564,872
Capital and reserves			
Share capital		**27,896**	27,896
Reserves		**538,018**	533,013
Equity attributable to owners of the Company		**565,914**	560,909
Non-controlling interests		**4,737**	3,963
TOTAL EQUITY		**570,651**	564,872

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

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 2013 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 2013.

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 2014. 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. FAIR VALUE MEASUREMENTS

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the condensed consolidated statement of financial position approximate their respective fair values.

4. 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 carried on a single business in two geographical locations, which is the outsourcing software development services, and all the assets are principally located in the PRC and Japan. Accordingly, there are two 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 2014

	PRC *HK$'000* **(unaudited)**	**Japan** *HK$'000* **(unaudited)**	**Total** *HK$'000* **(unaudited)**
Revenue	**14,111**	**299,905**	**314,016**
Cost of services	**(14,625)**	**(257,794)**	**(272,419)**
Gross (loss)/profit	**(514)**	**42,111**	**41,597**
Administrative expenses	**(918)**	**(34,961)**	**(35,879)**
Segment results	**(1,432)**	**7,150**	**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**

Six months ended 30 June 2013

	PRC *HK$'000* (unaudited)	Japan *HK$'000* (unaudited)	Total *HK$'000* (unaudited)
Revenue	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 results	(1,490)	(9,113)	(10,603)
Share of result of an associate			(996)
Other income, gains/(losses)			(43,106)
Unallocated corporate expenses			(5,836)
Loss before tax			(60,541)

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 and other income, gains/(losses). 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 2014

	PRC *HK$'000* **(unaudited)**	**Japan** *HK$'000* **(unaudited)**	**Total** *HK$'000* **(unaudited)**
Segment assets	**303,004**	**165,858**	**468,862**
Unallocated assets			**254,236**
Consolidated total			**723,098**
Segment liabilities	**31,178**	**115,731**	**146,909**
Unallocated liabilities			**5,538**
Consolidated total			**152,447**

At 31 December 2013

	PRC *HK$'000* (audited)	Japan *HK$'000* (audited)	Total *HK$'000* (audited)
Segment assets	392,054	251,820	643,874
Unallocated assets			55,884
Consolidated total			699,758
Segment liabilities	29,375	93,446	122,821
Unallocated liabilities			12,065
Consolidated total			134,886

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.

5. INCOME TAX EXPENSE/(CREDIT)

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Current tax		
PRC Enterprise Income Tax	**3,320**	28
Japan income tax	**5,241**	2,500
	8,561	2,528
Under/(over) provision in prior years		
PRC Enterprise Income Tax	**626**	(3,881)
	9,187	(1,353)
Deferred tax		
Current period	**(40)**	(1,654)
	9,147	(3,007)

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 10% (2013: 15%) as compared to the unified tax rate of 25% in 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 2014 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.

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, 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 2013: 15%) on the portion of taxable income not exceeding Japanese Yen ("JPY") 8,000,000 (equivalent to approximately HK$612,000, six months ended 30 June 2013: HK$629,000) and 25.5% (six months ended 30 June 2013: 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 2013 to 31 March 2014. Corporate enterprise tax is calculated at a progressive statutory rate of 2.95% (six months ended 30 June 2013: 2.95%) on the portion of taxable income not exceeding JPY4,000,000 (equivalent to approximately HK$306,000, six months ended 30 June 2013: HK$314,000), 4.365% (six months ended 30 June 2013: 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 2013: 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$5,000, six months ended 30 June 2013: HK$6,000) to JPY200,000 (equivalent to approximately HK$15,000, six months ended 30 June 2013: HK$16,000), depending on the headcount and capital of the entities.

6. PROFIT/(LOSS) FOR THE PERIOD

Profit/(loss) for the period is arrived at after charging/(crediting):

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Allowance for doubtful debts	**834**	–
Depreciation of plant and equipment	**8,278**	3,896
Loss on disposal of plant and equipment	**228**	45
Operating lease rentals in respect of office premises	**14,975**	14,898
Net foreign exchange (gain)/loss	**(13,481)**	49,718
Directors' remuneration	**6,157**	4,757
Interest income from bank balances	**(662)**	(2,671)
Interest income from loan receivables	**–**	(1,758)
Interest income from short term investments	**(4,156)**	(1,177)
Government subsidies	**(852)**	(1,000)

7. DIVIDENDS

The directors of the Company do not recommend the payment of an interim dividend for the current period (2013: Nil).

8. EARNINGS/(LOSS) PER SHARE

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

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Earnings/(loss)		
Profit/(loss) for the period attributable to owners of the Company, for the purpose of basic earnings/(loss) per share calculation	**9,694**	(57,418)

	2014	2013
	’000	*’000*
	(unaudited)	(unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share calculation	**1,115,835**	1,115,835

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 2014.

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

9. TRADE AND OTHER RECEIVABLES

	30 June 2014	31 December 2013
	HK$’000	*HK$’000*
	(unaudited)	(audited)
Trade receivables	**83,014**	77,239
Less: allowance for doubtful debts	**(2,320)**	(1,500)
	80,694	75,739
Other receivables	**22,742**	4,538
Other deposits	**3,735**	3,574
Prepayments	**5,826**	8,663
Total trade and other receivables	**112,997**	92,514

The Group allows an average credit period of 30 to 210 days (31 December 2013: 30 to 150 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 2014	31 December 2013
	HK$’000	*HK$’000*
	(unaudited)	(audited)
0–30 days	**57,232**	46,361
31–60 days	**8,697**	13,265
61–90 days	**1,966**	1,690
91–180 days	**5,231**	3,828
181–360 days	**3,229**	6,149
Over 360 days	**4,339**	4,446
	80,694	75,739

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

	30 June 2014 HK$'000 (unaudited)	31 December 2013 HK$'000 (audited)
91–180 days	**241**	243

10. TRADE AND OTHER PAYABLES

	30 June 2014 HK$'000 (unaudited)	31 December 2013 HK$'000 (audited)
Trade payables	**26,376**	16,861
Wages and salaries payable	**77,606**	76,887
Accruals	**5,428**	9,757
Other tax payables	**11,582**	4,483
Other payables	**4,837**	3,640
	125,829	111,628

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 2014 HK$'000 (unaudited)	31 December 2013 HK$'000 (audited)
0–30 days	**17,546**	11,752
31–60 days	**8,410**	5,048
61–90 days	**171**	61
91–180 days	**249**	–
	26,376	16,861

MANAGEMENT DISCUSSION AND ANALYSIS

Industry and Market Overview

Over the first half of 2014, the global economy had been clouded with many uncertainties and imbalance, together with downside pressure. At the same time, there was accelerating investment in information platforms to the software development industry. The rapid developments of e-commerce, smart phone, mobile internet and cloud computing resulted in a surge in demand for experts in the software development industry. In respect of software outsourcing services for the Japanese market, which is the Group's core business, along with the improved Japanese economy, particularly the shortage of software development experts in the IT industry in Japan which is ever-increasing, it is necessary for enterprises to pursuit of lower costs to strengthen their competitive edge. These have caused the demand for overseas software outsourcing services continuing to increase. Though the depreciation of Japanese Yen last year has paused, the pressure from prevailing exchange rate and increasing development costs, especially as labour costs, on enterprises engaged in the operation of software outsourcing services for the Japanese market has not alleviated at all, and has impeded business growth and development. Therefore, many enterprises engaged in the operation of software outsourcing services for the Japanese market have stepped up their efforts in implementing the strategy of business localization so as to cut their development cost further. In addition, they seek for price adjustment with the clients and improve operating conditions by extending business scale and enhancing efficiency.

Business Review

Since the growth of the software development market began to slowdown, the exchange rate of Japanese Yen has been a main factor to the operating results of the Group. Despite the exchange rate of Japanese Yen remained low and the increasing development costs, the Group achieved outstanding performance in its software development business for the Japanese market with the devoted efforts of our management and staff. For the six months ended 30 June 2014, the Group recorded approximately 48.3% increase in revenue generated from the Japanese market when compared to the corresponding period in 2013.

Amid fierce competition in the industry, severe market conditions, particularly the exchange rate of Japanese Yen remained low, for the six months ended 30 June 2014, the Group recorded an increase in total revenue by approximately 39.0% when compared to the corresponding period in 2013. The gross profit for the six months ended 30 June 2014 increased by approximately 59.3%, from HK$26,117,000 to HK$41,597,000.

Outlook

Looking ahead, the movement of the exchange rate of Japanese Yen will continue to have direct impact on the Group's results and the performance of the software outsourcing services industry for the Japanese market. Along with the improvement of Japanese economy during the first half of 2014, the Japanese software market regained its growth momentum with a series of large scale development projects being launched consecutively. However, we expect the severe shortage of experts in software development in Japan will extend to 2016, which will bring about more business opportunities to the Group. Meanwhile, the industry is experiencing an increase in the investment in information platforms, a booming demand for information consumption and a rapid change in the form of software services, and as a result, it will probably generate an industry-wide business growth in spite of market adversities. Furthermore, the software market in China has been well developing, and the growth rate is expected to be higher than that of 2013, while software outsourcing services industry also demonstrates a growing trend.

In addition, the Group will explore new ideas and seek a new drive for business development, such as customer acquisition and sharing of human resources. The Group also 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.

In order to ensure a stable environment for business development, the Group will step up its efforts in implementing the strategy of business localization so as to cut our software development cost further. The Group will also take an active role to enlarge the scale of its upstream business according to the demand from clients, to increase the added-value of its services and to enhance the efficiency of product development for the purpose of generating more revenue for the Company.

REVIEW OF RESULTS AND OPERATIONS

The Group's consolidated turnover for the six months ended 30 June 2014 was approximately HK$314,016,000, representing an increase of approximately 39.0% when compared to HK$225,863,000 in the corresponding period in 2013. The increase was mainly attributable to the increase in services demand in the Japanese market and price adjustment for our services for the six months ended 30 June 2014. Turnover generated from Japan increased by approximately 48.3% from HK$202,290,000 in the corresponding period in 2013 to HK$299,905,000 in the six months ended 30 June 2014. However, turnover sourced from the PRC decreased by approximately 40.1% to HK$14,111,000.

Gross profit for the six months ended 30 June 2014 increased to approximately HK$41,597,000, representing a 59.3% increase when compared with the gross profit of approximately HK$26,117,000 in the corresponding period in 2013. The Group's gross profit margin was approximately 13.2% for the six months ended 30 June 2014 (the corresponding period in 2013: 11.6%). The slight increase in gross profit margin by 1.6% was resulted from the stable Japanese exchange rate against our reporting currency of Hong Kong Dollar and our price adjustment.

Operating profit of approximately HK$20,046,000 was recorded in the six months ended 30 June 2014 when compared with the operating loss of approximately HK$59,545,000 in the corresponding period in 2013. The operating profit for the six months ended 30 June 2014 was due to an increase in gross profit by approximately HK$15,480,000 and recording of net foreign exchange gain of approximately HK$13,481,000 whereas the net foreign exchange loss of approximately HK$49,718,000 for the corresponding period in 2013 but offset by the increase in administrative expenses of approximately HK$7,136,000.

Net profit attributable to owners of the Company was approximately HK$9,694,000 for the six months ended 30 June 2014 whereas net loss attributable to owners of the Company was approximately HK$57,418,000 for the corresponding period in 2013. The net profit attributable to owners of the Company was primarily because of the recording of operating profit as mentioned above but offset by income tax expenses of approximately HK$9,147,000 in 2014 whereas income tax credit of approximately HK$3,007,000 in 2013.

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 six months ended 30 June 2014, 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$551,706,000 and there was no bank borrowing as at 30 June 2013.

SHARE CAPITAL

As at 30 June 2014, the number of shares in respect of which options had been granted and remained outstanding under the Company's share option scheme was 12,620,000 (31 December 2013: 13,580,000), representing 1.4% (31 December 2013: 1.21%) of issued shares of the Company at that date.

PLEDGE OF ASSETS

As at 30 June 2014, the Group had not pledged any of its assets.

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2014, total headcount of the Group reached 1,510 of which 1,349 in China and 161 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

(a) Share Option Scheme adopted on 2 April 2004

As at 30 June 2014, there were options for 12,620,000 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 "Old Share Option Scheme"), whereas 960,000 options were lapsed during the six months ended 30 June 2014. The Old Share Option Scheme expired on 1 April 2014. No share option can be granted under Old Share Option Scheme.

(b) New Share Option Scheme adopted on 26 March 2014

A new share option scheme was adopted by the shareholder of the Company on 26 March 2014 ("New Share Option Scheme").

As at 30 June 2014, no option has been granted under the New Share Option Scheme.

INTERIM DIVIDEND

The directors of the Company do not recommend payment of any interim dividend for the six month period ended 30 June 2014 (2013: Nil).

CORPORATE GOVERNANCE

During the six month period ended 30 June 2014, 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's 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.

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 2014.

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 month period ended 30 June 2014.

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

1. Mr. Li Jian resigned as a Non-Executive Director of the Company with effect from 31 July 2014.

2. Mr. Yamamoto Yoshimasa resigned as an Independent Non-Executive Director of the Company and ceased to be a member of Audit Committee, Nomination Committee and Salary Review Committee of the Company with effect from 31 July 2014.

3. Mr. Sasaki So was appointed as a Non-Executive Director of the Company with effect from 31 July 2014.

4. Mr. Takei Akio was appointed as an Independent Non-Executive Director, a member of Audit Committee, Nomination Committee and Salary Review Committee of the Company with effect from 31 July 2014.

5. Mr. Kotoi Hirofumi had been re-designated as a Non-Executive Director of the Company with effect from 31 July 2014.

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. Takei Akio (appointed on 31 July 2014).

The Audit Committee has reviewed and approved the Group's unaudited consolidated interim results for the six months period ended 30 June 2014 ("Interim Results"). The Interim Results have been reviewed by RSM Nelson Wheeler, the auditors of the Company.

By order of the board

Wang Zhiqiang *Co-Chairman*

Zuo Jian Zhong *Co-Chairman*

Hong Kong, 18 August 2014

As at the date of this announcement, the Company's executive directors are Mr. Wang Zhiqiang and Mr. Zuo Jian Zhong and the non-executive directors are Mr. Kotoi Hirofumi and Mr. Sasaki So, and the independent non-executive directors are Mr. Chui Man Lung Everett, Mr. Wu Hong and Mr. Takei Akio.