



仁智
SAGE

Sage International Group Limited
Third Quarterly Report 2013

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)
Stock Code: 8082

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of Sage International Group Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Sage International Group Limited. 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 in this report misleading.

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Chui Bing Sun (*Chairman*)
Mr. Kwok Kwan Hung

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Wai Man
Mr. Law Yee Man, Thomas
Mr. Siu Hi Lam, Alick

COMPANY SECRETARY/ COMPLIANCE OFFICER

Mr. Kwok Kwan Hung

AUDIT COMMITTEE

Mr. Chan Wai Man (*Chairman*)
Mr. Law Yee Man, Thomas
Mr. Siu Hi Lam, Alick

NOMINATION COMMITTEE

Mr. Law Yee Man, Thomas (*Chairman*)
Mr. Chan Wai Man
Mr. Siu Hi Lam, Alick

REMUNERATION COMMITTEE

Mr. Siu Hi Lam, Alick (*Chairman*)
Mr. Chan Wai Man
Mr. Law Yee Man, Thomas

AUTHORISED REPRESENTATIVES

Mr. Chui Bing Sun
Mr. Kwok Kwan Hung

AUDITOR

PricewaterhouseCoopers

SOLICITOR

Michael Li & Co.

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11 Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

32/F Sunshine Plaza
353 Lockhart Road
Wan Chai Hong Kong

PRINCIPAL SHARE REGISTRAR

MUFG Fund Services (Bermuda) Limited
26 Burnaby Street
Hamilton HM11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR

Tricor Tengis Limited
26/F Tesbury Centre
28 Queen's Road East
Wan Chai Hong Kong

PRINCIPAL BANKERS

Bank of Communications Co., Limited
Citibank, N.A., Hong Kong Branch
DBS Bank (Hong Kong) Limited

STOCK CODE

8082

CONTACT INFORMATION

Tel: +852 3150 8082
Fax: +852 3150 8092
Email: ir@sig.hk
Website: www.sig.hk

UNAUDITED FINANCIAL RESULTS

The Board of Directors (the "Directors") of Sage International Group Limited (the "Company") announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the "Group") for the three months and nine months ended 30 September 2013 together with the comparative audited figures for the corresponding periods in 2012 as follows:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and nine months ended 30 September 2013

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited and restated)	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited and restated)
Revenue	2	10,222	1,691	26,980	5,474
Cost of sales		(5,709)	(674)	(18,145)	(2,074)
Gross profit		4,513	1,017	8,835	3,400
Other income	3	669	426	2,199	694
Gain on deemed disposal of jointly-controlled entity	9	–	–	463	–
Sales and marketing expenses		(3,049)	(673)	(9,369)	(3,010)
Administration expenses					
Impairment loss on cemetery assets use rights		(83,313)	–	(83,313)	–
Share-based payment		(211)	(381)	(1,804)	(2,921)
Others		(11,178)	(9,031)	(32,649)	(23,469)
Operating loss		(92,569)	(8,642)	(115,638)	(25,306)
Finance income	4	–	8,485	–	8,485
Finance costs	4	(2,320)	(405)	(6,306)	(2,380)
Share of loss of a jointly-controlled entity	8	–	(404)	–	(1,956)
LOSS BEFORE TAXATION		(94,889)	(966)	(121,944)	(21,157)
Income tax credit	5	21,669	–	23,072	–
LOSS FOR THE PERIOD		(73,220)	(966)	(98,872)	(21,157)
Attributable to:					
Owners of the Company		(32,393)	(988)	(55,561)	(21,218)
Non-controlling interests		(40,827)	22	(43,311)	61
		(73,220)	(966)	(98,872)	(21,157)
Dividend	6	–	–	–	–
LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	7				
Basic (HK\$ per share)					
– For loss for the period		(0.021)	(0.001)	(0.037)	(0.017)
Diluted (HK\$ per share)					
– For loss for the period		N/A	N/A	N/A	N/A

UNAUDITED CONDENSED STATEMENT OF COMPREHENSIVE INCOME

For the three months and nine months ended 30 September 2013

	Three months ended 30 September		Nine months ended 30 September	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
	(Unaudited)	(Unaudited and restated)	(Unaudited)	(Unaudited and restated)
Loss for the period	(73,220)	(966)	(98,872)	(21,157)
Other comprehensive loss				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	(315)	(321)	282	105
Total comprehensive loss for the period	(73,535)	(1,287)	(98,590)	(21,052)
Attributable to:				
Owners of the Company	(32,608)	(1,186)	(55,102)	(21,023)
Non-controlling interests	(40,927)	(101)	(43,488)	(29)
	(73,535)	(1,287)	(98,590)	(21,052)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2013

	Attributable to owners of the Company											
	Share capital	Share premium	Contributed surplus	Exchange reserve	Option deed	Share-based payment reserve	Warrants shares reserve	Convertible bonds equity reserve	Accumulated losses	Total	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2012 (audited)	2,530	68,768	31,713	8,575	19	221,354	3,933	28,609	(227,830)	137,671	69,087	206,758
Change in accounting policy	-	-	-	(8,214)	-	-	-	-	(59)	(8,273)	(48,438)	(56,711)
At 1 January 2012 (restated)	2,530	68,768	31,713	361	19	221,354	3,933	28,609	(227,889)	129,398	20,649	150,047
Loss for the period, as restated	-	-	-	-	-	-	-	-	(21,218)	(21,218)	61	(21,157)
Other comprehensive loss for the period, as restated												
Exchange differences on translation of foreign operations	-	-	-	195	-	-	-	-	-	195	(90)	105
Total comprehensive loss for the period, as restated	-	-	-	195	-	-	-	-	(21,218)	(21,023)	(29)	(21,052)
Rights issue	1,265	48,809	-	-	-	-	-	-	-	50,074	-	50,074
Equity-settled share options arrangement	-	-	-	-	-	411	-	-	-	411	-	411
Equity-settled warrants shares arrangement	-	-	-	-	-	-	2,510	-	-	2,510	-	2,510
At 30 September 2012 (unaudited)	3,795	117,577	31,713	556	19	221,765	6,443	28,609	(249,107)	161,370	20,620	181,990
At 1 January 2013 (audited)	3,795	117,577	31,713	9,938	19	221,765	7,280	28,609	(273,157)	147,539	68,133	215,672
Change in accounting policy	-	-	-	(9,114)	-	-	-	-	(1,670)	(10,784)	(47,673)	(58,457)
As at 1 January 2013 (restated)	3,795	117,577	31,713	824	19	221,765	7,280	28,609	(274,827)	136,755	20,460	157,215
Loss for the period	-	-	-	-	-	-	-	-	(55,561)	(55,561)	(43,311)	(98,872)
Other comprehensive loss for the period												
Exchange differences on translation of foreign operations	-	-	-	459	-	-	-	-	-	459	(177)	282
Total comprehensive loss for the period	-	-	-	459	-	-	-	-	(55,561)	(55,102)	(43,488)	(98,590)
Deemed acquisition of interest in subsidiary	-	-	-	17,414	-	-	-	-	(2,647)	14,767	254,101	268,868
Equity-settled share options arrangement	-	-	-	-	-	764	-	-	-	764	-	764
Equity-settled warrants shares arrangement	-	-	-	-	-	-	1,041	-	-	1,041	-	1,041
At 30 September 2013 (unaudited)	3,795	117,577	31,713	18,697	19	222,529	8,321	28,609	(333,035)	98,225	231,073	329,298

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL RESULTS

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

These unaudited condensed consolidated financial statements are prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules").

These unaudited condensed consolidated financial statements should be read in conjunction with the Company's annual financial statements for the year ended 31 December 2012 ("2012 Annual Report"). The accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated financial statements are consistent with those used in the Company's 2012 Annual Report.

Application of new and revised HKFRS which are issued and effective

During the period ended 30 September 2013, the Group has applied for the first time of the amendments to HKFRS 11 – Joint arrangement ("HKFRS 11"). Under the amendments, HKFRS 11 are required to be accounted for using equity method of accounting. The amendments to HKFRS 11 have been applied retrospectively. Details of the interest in a jointly-controlled entity are disclosed in note 8.

Impact of new and revised HKFRSs which are issued but not effective

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

The Group is in the process of assessing the impact of the new and revised HKFRSs upon initial application but has not yet in a position to state whether these new and revised HKFRSs would have a significant impact on its results of operations and financial position.

2. OPERATING SEGMENT INFORMATION

The chief operating decision-maker has been identified as the executive directors and senior management collectively. They review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments from a geographic locations perspective, mainly Hong Kong and Mainland China.

In Mainland China, the Group mainly derives its revenue from the sales of interments right and cemetery related merchandise and the rendering of funeral services. In Hong Kong, the Group mainly derives its revenue from the rendering of funeral services. Sales between segments are carried out at arm's length. The revenue from external parties reported to the management is measured in a manner consistent with that in the consolidated income statement.

The executive directors and senior management assess the performance of segments based on a measure of segment results before finance costs and unallocated corporate income and expenses.

The segment results and other segment items for the nine months ended 30 September 2013 are as follows:

	Mainland China HK\$'000 (Unaudited)	Hong Kong HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Segment revenue:			
Sales to external customers	17,530	9,450	26,980
Operating loss	(7,792)	(5,521)	(13,313)
Impairment loss on cemetery assets use rights <i>(note)</i>	(83,313)	–	(83,313)
Unallocated corporate expenses, net			(19,012)
Finance costs			(6,306)
Loss before taxation			(121,944)

Note: During the nine months period ended 30 September 2013, the Group has recognized an impairment loss of approximately HK\$83,313,000 (30 September 2012: Nil) in relation to the cemetery assets use rights arising from the acquisition of Era Investment (Holding) Inc. and its subsidiary, the cash generating unit ("CGU"). The impairment loss was made mainly due to actual net cash flows flowing from the cemetery assets use rights that are less than those budgeted.

The recoverable amount of the CGU has been determined based on the higher of its fair value less cost to sell and its value in use. The value in use calculation undertaken requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the future cash flows are less than expected or due to changes in estimates, a material impairment loss may arise.

The segment results and other segment items for the nine months ended 30 September 2012 are as follows:

	Mainland China HK\$'000 (Unaudited and restated)	Hong Kong HK\$'000 (Unaudited and restated)	Total HK\$'000 (Unaudited and restated)
Segment revenue:			
Sales to external customers	5,167	307	5,474
Operating loss	(1,362)	(1,490)	(2,852)
Share of loss of a jointly-controlled entity			(1,956)
Unallocated corporate expenses, net			(13,969)
Finance costs			(2,380)
Loss before taxation			(21,157)

A breakdown of the revenue from all services and products is as follows:

	Three months ended 30 September 2013		Nine months ended 30 September 2013	
	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited and restated)	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited and restated)
Sales of interments right and related products	4,890	–	11,812	–
Rendering of funeral and cremation services	5,302	1,691	15,069	5,474
Management service	30	–	99	–
	10,222	1,691	26,980	5,474

3. OTHER INCOME

An analysis of the other income is as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2013 HK\$'000	2012 HK\$'000 (Unaudited)	2013 HK\$'000	2012 HK\$'000 (Unaudited)
	(Unaudited)	and restated)	(Unaudited)	and restated)
Rental income	246	–	738	193
Sundry income	423	426	1,461	501
	669	426	2,199	694

4. FINANCE INCOME AND COSTS

An analysis of the finance income and costs are as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2013 HK\$'000	2012 HK\$'000 (Unaudited)	2013 HK\$'000	2012 HK\$'000 (Unaudited)
	(Unaudited)	and restated)	(Unaudited)	and restated)
Interests on:				
– Other borrowings wholly repayable within five years	(949)	–	(2,202)	(79)
– Other borrowings wholly repayable after five years	(487)	–	(1,452)	–
– Convertible bonds	(884)	(405)	(2,652)	(2,301)
Total finance costs	(2,320)	(405)	(6,306)	(2,380)
Finance income:				
– Gain arising on extinguishment of a convertible bond	–	8,485	–	8,485
Net finance income/(costs)	(2,320)	8,080	(6,306)	6,105

5. INCOME TAX CREDIT

	Three months ended 30 September 2013		Nine months ended 30 September 2013	
	HK\$'000	2012 HK\$'000 (Unaudited and restated)	HK\$'000	2012 HK\$'000 (Unaudited and restated)
Deferred income tax	21,669	–	23,072	–
Income tax credit	21,669	–	23,072	–

Hong Kong profits tax is calculated at 16.5% on the estimated assessable profits for both periods. No provision for Hong Kong profits tax has been made as the Group has no assessable profits arising in Hong Kong for the period ended 30 September 2013 (30 September 2012: Nil).

The PRC subsidiaries are subject to the PRC corporate income tax at 25% for both periods. No provision for the PRC corporate income tax has been made as the Group has tax losses brought forward to offset the assessable profits generated in the PRC for the period (30 September 2012: no assessable profits). Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The Group did not have any significant deferred taxation which was not provided for in respect of each of the reporting periods.

6. DIVIDEND

The Directors do not recommend the payment of dividend nor transfer of any amount to reserves for the nine months period ended 30 September 2013 (30 September 2012: Nil).

7. LOSS PER SHARE

The calculation of basic loss per share amount is based on the loss for the three months and nine months periods ended 30 September 2013 attributable to owners of the Company, and the weighted average number of ordinary shares of 1,517,837,994 and 1,517,837,994 respectively (30 September 2012: 1,517,837,994 and 1,260,644,384 respectively) in issue during the period.

No diluted loss per share has been calculated for both periods ended 30 September 2013 and 30 September 2012 as the Company's outstanding share options, warrants and convertible bonds had an anti-dilutive impact.

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following data:

	Three months ended 30 September 2013		Nine months ended 30 September 2013	
	HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited and restated)	HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited and restated)
Loss				
Loss attributable to owners of the Company used in the basic loss per share calculation:	(32,393)	(988)	(55,561)	(21,218)
Interest on convertible bonds	884	405	2,652	2,301
Loss attributable to owners of the Company before interest on convertible bonds	(31,509)	(583)	(52,909)	(18,917)
	Three months ended 30 September 2013		Nine months ended 30 September 2013	
	(Unaudited)	2012 (Unaudited and restated)	(Unaudited)	2012 (Unaudited and restated)
Number of shares				
Weighted average number of ordinary shares in issue during the period used in the basic loss per share calculation	1,517,837,994	1,517,837,994	1,517,837,994	1,260,644,384
Weighted average number of ordinary shares used in the diluted loss per share calculation	N/A	N/A	N/A	N/A

8. INTEREST IN A JOINTLY-CONTROLLED ENTITY

The following table illustrates the summarized financial information of the Group's jointly-controlled entity which is accounted for using the equity method for the period ended 30 September 2012 is set out below:

	Three months ended 30 September 2012 HK\$'000 (Unaudited and restated)	Nine months ended 30 September 2012 HK\$'000 (Unaudited and restated)
Share of the jointly-controlled entity's income and expenses:		
Income	1,481	4,782
Expenses	(2,067)	(7,593)
Income tax credit	182	855
Loss after taxation	(404)	(1,956)

9. DEEMED DISPOSAL OF INTEREST IN A JOINTLY-CONTROLLED ENTITY AND DEEMED ACQUISITION OF INTEREST IN A SUBSIDIARY

On 16 January 2013, Forrex (Holding) Inc. ("Forrex") who jointly controls Era Investment (Holding) Inc. ("EIHI") with Grand Creation Investments Limited ("Grand Creation"), a wholly own subsidiary of the Company, has given an unconditional irrevocable undertaking (the "Undertaking") in favour of Grand Creation pursuant to which Forrex shall vest to Grand Creation all of the voting rights enjoyed by Forrex in respect of its 50% equity interest in EIHI from time to time. The Undertaking shall be valid for a term of three years and subject to further review of the terms of the Undertaking therein upon renewal. Upon the execution of this Undertaking, the Group has the power to govern the financial and operating policies of EIHI whereby the Group has to account for such transaction as a business combination and treated EIHI as a non-wholly owned subsidiary of the Group thereafter.

Taking into account the execution of the Undertaking, the Group recognized it as a deemed disposal of 50% equity interest in EIHI, a jointly-controlled entity and a deemed acquisition of 50% of equity interest in EIHI.

The fair value of the identifiable assets and liabilities of 50% equity interest in EIHI recognized at the deemed disposal is as follow:

	50% equity interest in EIHI HK\$'000
Non-current assets	320,646
Current assets	4,333
Non-current liabilities	(99,743)
Current liabilities	(21,123)
Total identifiable net assets at fair value	204,113
Non-controlling interest	(52,173)
	151,940
	HK\$'000
Gain on deemed disposal of 50% equity interest of EIHI	463

Following the deemed disposal of 50% equity interest in EIHI, the fair value of assets and liabilities recognized at the date of the Undertaking commence in relation to the deemed acquisition of 50% equity interest in EIHI are as follows:

	50% equity interest in EIHI HK\$'000
Non-current assets	320,646
Current assets	4,333
Non-current liabilities	(99,743)
Current liabilities	(21,123)
Total identifiable net assets at fair value	204,113
Non-controlling interest	(52,173)
	151,940

With the result of the execution of the Undertaking, the Group treated such transaction as a business combination and considered it as a deemed disposal of the existing 50% equity interest in EIHI and a deemed acquisition of 50% equity interest in EIHI. No actual consideration involved in this transaction.

As at reporting date, the Group has not finalized the fair value assessments for the net assets deemed disposed of and deemed acquired from this transaction. The relevant fair values of net assets deemed disposed of and deemed acquired stated above are on a provisional basis.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial and operation review

The Group principally engaged in the deathcare business in the Greater China region during the nine months period under review.

Adoption of new accounting standard

As explained in the Management Discussion and Analysis section on page 21 of the 2013 interim report ("2013 Interim Report"), the prior period comparative figures of the results of a 50% subsidiary of the Group, Era Investment (Holding) Inc. ("EIH") and its subsidiary, Suzhou Celebrities Cemetery Industry Company Limited ("Suzhou Celebrities") (together "Suzhou Cemetery"), have been reclassified and accounted for under equity accounting method and presented into one single item as share of result of a jointly-controlled entity, due to the effect of the adoption of a new accounting standard in the current nine months period by EIH. On the other hand, pursuant to an undertaking provided by Forrex (Holding) Inc ("Forrex"), a 50% equity partner of EIH, the results of Suzhou Cemetery was fully consolidated in the Group's results during the current period since the effective of the Undertaking on 16 January 2013. The overall effect of the adoption of a new accounting standards ("New Accounting Treatment") is to have a 100% consolidated results of Suzhou Cemetery included in 2013 while no consolidated results of Suzhou Cemetery was included in 2012.

Revenue

During the nine months period ended 30 September 2013, mainly due to the effect of the New Accounting Treatment mentioned above, the revenue of the Group was increased by 392.88% to approximately HK\$26,980,000 (2012: approximately HK\$5,474,000). Total revenue mainly derived from the provision of funeral services in Hong Kong, the provision of cremation services in PRC and sales of interment rights and related management fee incomes in the PRC. Prior period revenue (restated) consisted mainly of income from PRC cremation services because revenue of Hong Kong funeral services only commenced in October 2012.

Gross profit

The gross profit of the Group for the nine months ended 30 September 2013 also increased by 159.85% to approximately HK\$8,835,000 (2012: approximately HK\$3,400,000). The gross profit margin was decreased to 32.75% from 62.11% in last corresponding period. The decrease in margin was also mainly attributable to the inclusion of the result of Suzhou Cemetery in the current period which has a slightly negative gross profit margin (after amortization of cemetery asset use right).

Loss for the period and impairment loss

For the nine months ended 30 September 2013, the Group's loss for period increased to approximately HK\$98,872,000 from HK\$21,157,000 of the prior period and such significant increase in loss was mainly attributed by an impairment loss of HK\$83,313,000 on the cemetery asset use right, an intangible asset of Suzhou Cemetery. The net impairment loss attributable to the Group after the deferred tax liabilities written back and sharing by non-controlling interest is approximately HK\$23,432,000. The carrying value of this intangible asset was tested for impairment during the period and its recoverable amount was estimated to be lower than the carrying value following the management's assessment and supported an independent valuation performed by an external valuer. The impairment loss is a non-cash item and has no significant impact to the Group cashflow and operation. Details of the estimates, assumptions and judgments relating to the impairment is included in note 2 in the unaudited condensed consolidated financial results.

If the net of impairment loss after the deferred tax liabilities written back, HK\$62,485,000, was excluded, the loss for the nine months period ended was approximately HK\$36,387,000 (2012: HK\$21,157,000) and is more than that of last period. The operating loss for the current period mainly attributed to the staff costs, premises expense, marketing and other corporate costs for operations.

Finance income

In last corresponding period, there is a finance income of HK\$8,485,000 which is the fair value gain on extinguishment of a convertible bond issued by the Company to the bond holder, Forrex. There is no such item in the current period under review.

Sales and marketing expenses, administrative expenses

The effect on the New Accounting Treatment mainly accounted for the significant increase in sales and marketing expense, and administration expenses for the nine months period under review as compared to that of the last corresponding period. Apart from this reason, the increase in headcount of the Group during the current period also rendered the increase in these expenses.

Finance costs

Finance costs of current nine months period under review is HK\$6,306,000 (nine months period ended 30 September 2012: HK\$2,380,000) and such increase was due to the interest expense incurred from other borrowing.

Operation review – Hong Kong

The Group business plan was actively deployed during the nine months period under review and new funeral service package and products such as Sage Eternity Gem were launched. At the same time, exhibition and networking activities were also carried out during the period. More strategies and actions for developing customer loyalty and awareness will be developed in the upcoming business plan to ensure proper measures will be adopted and rolled out accordingly in the coming future. The Group also continues its collaboration with regional non-governmental organisation and industry players developing innovative products and services for families in needs.

Operation review – China

The Group's major operating cemetery asset is Suzhou Celebrities and active marketing and sales plans have been implementing since the early of 2013 to boost the sales. The management also organized exhibitions and promotion campaigns in Suzhou and Shanghai regions and reached a number of potential customers during the nine months period. However, the actual revenue growth during the period is still behind management's expectation. It is currently estimated that a longer time frame may be necessary for building up customer loyalty and awareness that will generate a more significant sales growth. Moreover, the growth of average selling price of the burial unit in the local region also experienced pressure during the period due to the slow down of the economy of local market. In this aspect, the Group will monitor the pricing policy closely to achieve a reasonable margin.

Cemetery in Huajji has just obtained all its relevant approvals and started marketing and sales of interments rights in September 2013. On the other hand, due to delay in government approval and lengthened procedures relating to construction work, cemetery in Bijie is still under progress and actual sales activities will not be expected in this year.

The Group also, during the period, terminated its discussion with a connected person on acquiring certain cemetery interests in Beijing.

After reviewing all these recent developments, the Group expects a longer payback period for its cemetery assets may be needed and the related cashflow expected to be generated from these cemetery assets may also be deferred as compared to the original plan. Suitable measures will be considered to monitor any impact of such development. Moreover, appropriate integration and restructuring on the operation of the funeral and cemetery operation may be done to improve operating efficiency.

Prospects

Despite the effect on the impairment loss and the slower than expected growth in sales of the cemeteries, the Board still sees the huge potential of the market demand in funeral services and products and its view on the positive long-term outlook of Greater China deathcare industry remain intact. With the experience and market knowledge gained by the Group over the past years in the deathcare industry, the Group is in its second stage of development on this industry. Under the framework, the Board is pursuing to improve the business model and streamlining its operating structure by leveraging its technology knowhow and human capital resources established in the funeral industry. Moreover, in order to provide a strong capital structure for a long term development in the deathcare sector, the Group will continue to seek for any suitable opportunities in fund raising or means to improve the existing capital structure.

Currency risk exposure

As at 30 September 2013, the Group had no material exposure to foreign exchange risk. The majority of the Group's assets were denominated in its functional currency of either Hong Kong Dollars or Renminbi. The Group currently does not have a foreign currency hedging policy in respect of foreign currency exposure. However, the Group will monitor its currency exposure and elect to hedge its currency risk when appropriate.

Employees and remuneration policies

As at 30 September 2013, the Group had 112 (nine months ended 30 September 2012: 99) employees, including Directors. Total staff costs for the nine months ended 30 September 2013, including Directors' remuneration, amounted to approximately HK\$17,849,000 (nine months ended 30 September 2012: HK\$10,196,000). The Group's employment and remuneration policies remained the same as detailed in the year ended 31 December 2012 Annual Report.

Charges on Group's assets and contingent liabilities

There were no charges on the Group's assets or any significant contingent liabilities as at 30 September 2013.

Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures of the Company

As at 30 September 2013, the interests or short positions of the Directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO) or which were required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Exchange pursuant to the required standard of dealings by Directors of the Company were as follows:

Interests in shares and underlying shares of the Company

(A) Number of ordinary shares and underlying shares beneficially held

Name of Directors	Capacity	Notes	Number of issued ordinary shares held	Number of underlying shares held	Total number of shares and underlying shares held	Percentage of the issued share capital of the Company
Mr. Chui Bing Sun ("Mr. Chui")	Interest of a controlled corporation	1	183,594,000	512,820,512	696,414,512	45.88%
	Personal	2	6,000	9,832,653	9,838,653	0.65%
	Person acting in concert	3	–	603,571,428	603,571,428	39.77%
			183,600,000	1,126,224,593	1,309,824,593	86.30%
Mr. Kwok Kwan Hung	Personal	4	660,000	33,494,489	34,154,489	2.25%
Mr. Law Yee Man, Thomas	Personal	4	400,000	1,117,346	1,517,346	0.10%
Mr. Chan Wai Man	Personal	4	270,000	1,340,816	1,610,816	0.11%
Mr. Siu Hi Lam, Alick	Personal	4	–	1,117,347	1,117,347	0.07%

Notes:

1. New Brilliant Investments Limited (“New Brilliant”) was interested in 183,594,000 shares and, pursuant to a subscription agreement dated 22 April 2010 (as supplemented by the supplemental agreement), New Brilliant agreed to subscribe for the convertible bonds in the principal amount of HK\$20,000,000 to be issued by the Company at adjusted conversion price of HK\$0.039 per share upon the completion of Rights Issue on 4 June 2012. Accordingly, New Brilliant was interested in 512,820,512 underlying shares of the Company derived from the convertible bonds. New Brilliant is wholly and beneficially owned by Mr. Chui, an executive Director of the Company.
2. Mr. Chui had a personal interest in 6,000 shares and 9,832,653 underlying shares of the Company upon the completion of Rights Issue on 4 June 2012. The underlying shares represent the share options granted by the Company to Mr. Chui to subscribe for 9,832,653 shares at adjusted exercise price of HK\$0.447 per share.
3. Mr. Chui was deemed to be interested in 603,571,428 underlying shares in respect of the convertible bonds issued by the Company to AXA Direct Asia II, L.P., a party acting in concert with him.
4. For details of the underlying shares, please refer to the next section headed “share options” which stated all the details of share options granted to Directors.

(B) Warrants

Name	Capacity	Number of adjusted warrants held	Number of adjusted underlying shares
Mr. Richard Andrew Connell	Beneficial owner	64,811,682	64,811,682
Ms. Ma Pun Sai, Betsy	Beneficial owner	44,928,005	44,928,005

Save as disclosed above and in the following section “Share options”, none of the Directors, chief executives nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 30 September 2013.

(C) *Share options*

Pursuant to the new share options scheme adopted by the Company on 31 August 2011, certain Directors and participants were granted share options to subscribe for the Company's shares, details of share options outstanding and exercisable as at 30 September 2013 were as follow:

	Number of share options				Outstanding and exercisable as at period ended 30 September 2013	Date of grant	Exercise period	Exercise price per share
	Outstanding as at 1 January 2013	Granted during the period	Exercised during the period	Lapsed during the period				
Category 1: Directors								
Mr. Chui	9,832,653	-	-	-	9,832,653	22 March 2011	22 March 2011 – 21 March 2021	HK\$0.447
Mr. Kwok Kwan Hung	357,551	-	-	-	357,551	15 February 2008	15 February 2008 – 14 February 2018	HK\$0.738
	1,117,347	-	-	-	1,117,347	7 July 2010	7 July 2010 – 6 July 2020	HK\$0.191
	1,430,204	-	-	-	1,430,204	12 August 2010	12 August 2010 – 11 August 2020	HK\$0.526
	4,245,918	-	-	-	4,245,918	3 December 2010	3 December 2010 – 2 December 2020	HK\$0.477
	11,173,469	-	-	-	11,173,469	5 December 2011	5 December 2011 – 4 December 2021	HK\$0.254
	-	15,170,000	-	-	15,170,000	18 January 2013	18 January 2013 – 17 January 2023	HK\$0.118
Mr. Chan Wai Man	223,469	-	-	-	223,469	15 February 2008	15 February 2008 – 14 February 2018	HK\$0.738
	1,117,347	-	-	-	1,117,347	5 December 2011	5 December 2011 – 4 December 2021	HK\$0.254
Mr. Law Yee Man, Thomas	446,938	-	-	-	446,938	12 August 2011	12 August 2011 – 11 August 2021	HK\$0.392
	670,408	-	-	-	670,408	5 December 2011	5 December 2011 – 4 December 2021	HK\$0.254
Mr. Siu Hi Lam, Alick	1,117,347	-	-	-	1,117,347	5 December 2011	5 December 2011 – 4 December 2021	HK\$0.254
Sub total	31,732,651	15,170,000	-	-	46,902,651			

Number of share options

	Outstanding as at 1 January 2013	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding and exercisable as at period ended 30 September 2013	Date of grant	Exercise period	Exercise price per share
Category 2: Employees/consultants								
Employees	12,737,755	-	-	-	12,737,755	7 July 2010	7 July 2010 – 6 July 2020	HK\$0.191
Employees	9,609,183	-	-	-	9,609,183	9 September 2010	9 September 2010 – 8 September 2020	HK\$0.513
Employees	7,151,020	-	-	-	7,151,020	13 September 2010	13 September 2010 – 12 September 2020	HK\$0.479
Employees	5,810,204	-	-	-	5,810,204	3 December 2010	3 December 2010 – 2 December 2020	HK\$0.477
Consultant	3,575,510	-	-	-	3,575,510	14 December 2007	14 December 2007 – 13 December 2017	HK\$0.626
Consultant	5,184,489	-	-	-	5,184,489	12 August 2010	12 August 2010 – 11 August 2020	HK\$0.526
Consultant	1,264,836	-	-	-	1,264,836	6 September 2010	6 September 2010 – 5 September 2020	HK\$0.443
Consultant	9,832,653	-	-	-	9,832,653	22 March 2011	22 March 2011 – 21 March 2021	HK\$0.447
Sub total	55,165,650	-	-	-	55,165,650			
Total	86,898,301	15,170,000	-	-	102,068,301			

There were no share options cancelled, lapsed or forfeited during the nine months ended 30 September 2013.

Substantial shareholders' interests and short positions in the shares, underlying shares and debentures of the Company

As at nine months ended 30 September 2013, the following shareholders (including Directors) had interests or short position in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the "SFO") and Section 336 of the SFO, were as follows:

Number of ordinary shares and underlying shares beneficially held:

Name	Capacity	Notes	Number of shares	Number of underlying shares	Total number of shares and underlying shares held	Long/short position	Percentage of interests
New Brilliant	Beneficial owner	1	183,594,000	512,820,512	696,414,512	Long	45.88%
Mr. Chui	Interest of a controlled corporation	1	183,594,000	512,820,512	696,414,512	Long	45.88%
	Beneficial owner	2	6,000	9,832,653	9,838,653	Long	0.65%
	Person acting in concert	3	–	603,571,428	603,571,428	Long	39.77%
			183,600,000	1,126,224,593	1,309,824,593		86.30%
AXA PE Asia Manager Limited	Beneficial owner	4	–	603,571,428	603,571,428	Long	39.77%
	Person acting in concert	4	–	706,253,165	706,253,165	Long	46.53%
			–	1,309,824,593	1,309,824,593		86.30%
		5	–	452,678,571	452,678,571	Short	29.82%
MM3 International Limited	Beneficial owner	6	100,000,000	–	100,000,000	Long	6.59%
Forrex (Holding) Inc. ("Forrex")	Beneficial owner	7	–	159,326,424	159,326,424	Long	10.50%
Mr. Luwen Kevin Duan ("Mr. Duan")	Interest of controlled corporations	6 and 7	100,000,000	159,326,424	259,326,424	Long	17.09%
Mr. Ho Sai Lon Mark	Beneficial owner		248,076,441	–	248,076,441	Long	16.34%
Ms. Ma Pun Sai, Betsy	Beneficial owner		46,968,000	44,928,005	91,896,005	Long	6.05%
Mr. Li Siu Kim	Beneficial owner		90,666,664	–	90,666,664	Long	5.97%

Notes:

1. New Brilliant was interested in 183,594,000 shares and, pursuant to a subscription agreement dated 22 April 2010 (as supplemented by the supplemental agreement), New Brilliant agreed to subscribe for the convertible bonds in the principal amount of HK\$20,000,000 to be issued by the Company at adjusted conversion price of HK\$0.039 per share upon the completion of rights issue on 4 June 2012. Accordingly, New Brilliant was interested in 512,820,512 underlying shares of the Company derived from the convertible bonds. New Brilliant is wholly and beneficially owned by Mr. Chui.
2. Mr. Chui had a personal interest in 6,000 shares and 9,832,653 underlying shares of the Company.
3. Mr. Chui was deemed to be interested in 603,571,428 underlying shares in respect of the convertible bonds issued by the Company to AXA Direct Asia II, L.P., a party acting in concert with him.
4. AXA PE Asia Manager Limited, a company incorporated in Jersey which is registered under the Jersey Financial Services Commission, managed the fund of AXA Direct Asia II, L.P. ("AXA"). Pursuant to a subscription agreement dated 14 March 2011 (as supplemented by the supplemental agreement), AXA agreed to subscribe for the convertible bonds in the principal amount of US\$12,500,000 (equivalent to approximately HK\$97,175,000) to be issued by the Company at adjusted conversion price of HK\$0.161 per share upon the completion of rights issue on 4 June 2012, which represented 603,571,428 shares.

AXA was deemed to be interested in 706,253,165, representing (i) 696,414,512 shares and underlying shares in respect of the convertible bonds issued by the Company to New Brilliant and (ii) 9,838,653 shares and underlying shares of options held by Mr. Chui, respectively; Mr. Chui and AXA are parties acting in concert.

5. A call option deed and put option deed were entered between AXA and New Brilliant, in which call option deed required AXA to sell New Brilliant the convertible bonds up to maximum principal amount of the lesser of (i) US\$6,250,000; or (ii) the difference between US\$12,500,000 and the aggregate principal amount of the convertible bonds and related conversion shares disposed of by AXA. The put option deed required New Brilliant to purchase from AXA the convertible bonds up to maximum principal amount US\$3,125,000 that are outstanding at the maturity date.
6. MM3 International Limited is wholly and beneficially owned by Mr. Duan, who is a director and wholly owned beneficial owner of Forrex, a corporate director of EIHI.
7. The 3% convertible bonds of the Company in the principal amount of HK\$30,750,000 was held by Forrex ("Forrex CB"), which are convertible into 159,326,424 shares at adjusted conversion price of HK\$0.193 per share upon the completion of rights issue on 4 June 2012. Forrex is wholly and beneficially owned by Mr. Duan.

On 15 August 2012, the Company and Forrex entered into the Deed of Amendment in relation to the extension of the maturity date of the Forrex CB, the maturity date will be extended to 31 May 2016 from the original maturity date which fall due on 30 September 2012.

On 16 January 2013, Forrex who jointly controls EIHI with Grand Creation Investments Limited ("Grand Creation"), a wholly own subsidiary of the Company, has given an unconditional irrevocable undertaking (the "Undertaking") in favour of Grand Creation pursuant to which Forrex shall vest to Grand Creation all of the voting rights enjoyed by Forrex in respect of its 50% equity interest in EIHI from time to time. Upon the execution of this Undertaking, the Group has the power to govern the financial and operating policies of EIHI and considered as a non-wholly owned subsidiary of the Group thereafter.

Save as disclosed above, as at nine months ended 30 September 2013, the Directors were not aware of any other person who had an interest or short position in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and Section 336 of the SFO, or who had interests of 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group.

Securities transactions by Directors

The Company has established written guidelines for the required standard of dealings in securities by directors of the Company on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries of Directors of the Company and the Directors confirmed that they have fully complied with the required standard with respect to the securities dealings of the Company and there was no event of non-compliance during the nine months ended 30 September 2013.

Director's interests in competing business

During the nine months ended 30 September 2013 and up to the date of this report, Mr. Chui, the Chairman and executive Director of the Company, is considered to have interests in the business which compete or are likely to compete, either directly or indirectly, with the business of the Group.

Mr. Chui maintains certain interests of companies which consist of deathcare and related business in Hong Kong and China. As such, the Board believes that Mr. Chui may, in some respects, regard as being interested in such competing businesses (the "Competing Businesses") with the Group.

However, the Competing Businesses are operating and managing by independent management and administration and the boards of the Competing Businesses are independent from the Board of the Company. Mr. Chui is fully aware of, and has been discharging, his fiduciary duty to the Company and has acted and will continue to act in the best interest of the Company and its shareholders as a whole. Accordingly, the Group is capable of carrying on its business independently of, and at arm's length from, the Competing Businesses mentioned above.

Arrangements to purchase shares or convertible bonds

Other than the options holdings and the convertible bonds disclosed above, at no time during the nine months ended 30 September 2013 was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or convertible bonds of, the Company or any other body corporate.

Compliance with Corporate Governance Practices

The Company has adopted the Corporate Governance Code (the "CG Code") as stated in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited.

Non-compliance with paragraph A2.1

Code provision A2.1 stipulates that the roles of Chairman and Chief Executive Officer (“CEO”) should be separate and should not be performed by the same individual. During the nine months ended 30 September 2013, Mr. Chui held the offices of Chairman and CEO of the Company. The Board believes that vesting the roles of both Chairman and Chief Executive Office in the same person provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

Save as the deviation from the code provision A2.1, separation of roles of Chairman and Chief Executive Officer pursuant to code provision A2.1 as disclosed in the section “Chairman and Chief Executive Officer”, the Company has met all the code provisions in the CG Code during the nine months ended 30 September 2013.

Audit committee

The Company has established an Audit Committee (“AC”) with specific terms of reference explaining its role and authorities delegated by the Board. The AC consists of three independent non-executive Directors, namely Mr. Chan Wai Man (Chairman of AC), Mr. Law Yee Man, Thomas and Mr. Siu Hi Lam, Alick, who together have sufficient accounting and financial management expertise, legal and business experience to discharge their duties and none of them is a former partner of the external auditors of the Company. In accordance with the provisions of the CG Code, the terms of reference of the AC were also revised which are substantially the same as the provisions set out in the CG Code.

The AC’s principal duties include reviewing the Group’s financial controls, internal control and risk management systems, reviewing and monitoring integrity of consolidated financial statements and reviewing annual, interim and quarterly consolidated financial statements and reports before submission to the Board and considering and recommending the appointment, re-appointment and removal of external auditors of the Company. The AC meets with the external auditors and the management of the Group to ensure that the audit findings are addressed properly. The AC is authorized to take independent professional advice at Company’s expense, if necessary.

The AC has reviewed the Group’s unaudited result for the nine months ended 30 September 2013.

By order of the Board
SAGE INTERNATIONAL GROUP LIMITED
Chui Bing Sun
Chairman and executive Director

Hong Kong, 8 November 2013

As at the date of this report, the executive Directors are Mr. Chui Bing Sun and Mr. Kwok Kwan Hung; and the independent non-executive Directors are Mr. Chan Wai Man, Mr. Law Yee Man, Thomas and Mr. Siu Hi Lam, Alick.