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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 2010

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 2010 (the “Period”), which has been reviewed by auditors of the Group, Deloitte Touche Tohmatsu, and the audit committee of the Company.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2010

	<i>Notes</i>	Six months ended 30 June	
		2010	2009
		HK\$’000	HK\$’000
		(unaudited)	(unaudited)
Revenue		294,194	324,285
Cost of services		(227,574)	(230,374)
		<hr/>	<hr/>
Gross profit		66,620	93,911
Administrative expenses		(40,066)	(43,596)
Share of loss of an associate		–	(48)
Other income and gains		8,979	10,624
Impairment loss on goodwill		(2,555)	–
		<hr/>	<hr/>
Profit before taxation		32,978	60,891
Taxation	4	(12,109)	(21,464)
		<hr/>	<hr/>
Profit for the period	5	20,869	39,427
		<hr/>	<hr/>

		Six months ended 30 June	
		2010	2009
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
		(unaudited)	(unaudited)
Other comprehensive income			
Exchange differences arising on translation from functional currency to presentation currency		4,807	(3,833)
Reclassification adjustment on translation difference upon liquidation of a subsidiary		(2,587)	–
		<hr/>	<hr/>
Other comprehensive income (expense) for the period		2,220	(3,833)
		<hr/>	<hr/>
Total comprehensive income for the period		23,089	35,594
		<hr/> <hr/>	<hr/> <hr/>
Profit for the period attributable to:			
Owners of the Company		20,677	39,372
Non-controlling interests		192	55
		<hr/>	<hr/>
		20,869	39,427
		<hr/> <hr/>	<hr/> <hr/>
Total comprehensive income for the period attributable to:			
Owners of the Company		22,864	35,539
Non-controlling interests		225	55
		<hr/>	<hr/>
		23,089	35,594
		<hr/> <hr/>	<hr/> <hr/>
Earnings per share	7		
– Basic		HK1.85 cents	HK3.54 cents
		<hr/> <hr/>	<hr/> <hr/>
– Diluted		HK1.85 cents	HK3.53 cents
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2010

	30 June 2010 HK\$'000 (unaudited)	31 December 2009 HK\$'000 (audited)
Non-current assets		
Plant and equipment	13,002	13,376
Goodwill	6,608	9,078
Other deposits	3,269	2,056
Deferred tax assets	3,490	2,921
	<u>26,369</u>	<u>27,431</u>
Current assets		
Trade and other receivables	99,312	121,161
Amount due from a related party	–	3,975
Held for trading investments	36	74
Bank balances and cash	544,564	593,751
	<u>643,912</u>	<u>718,961</u>
Current liabilities		
Trade and other payables	77,018	85,283
Amount due to a shareholder	–	37,000
Tax liabilities	8,445	9,357
	<u>85,463</u>	<u>131,640</u>
Net current assets	<u>558,449</u>	<u>587,321</u>
	<u>584,818</u>	<u>614,752</u>
Capital and reserves		
Share capital	27,936	27,868
Reserves	538,733	569,345
	<u>566,669</u>	<u>597,213</u>
Equity attributable to owners of the Company	566,669	597,213
Non-controlling interests	4,108	3,852
	<u>570,777</u>	<u>601,065</u>
Total equity	<u>570,777</u>	<u>601,065</u>
Non-current liabilities		
Deferred tax liabilities	14,041	13,687
	<u>14,041</u>	<u>13,687</u>
	<u>584,818</u>	<u>614,752</u>

Notes:

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2009.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK (IFRIC) – Int 17	Distributions of Non-cash Assets to Owners

The Group applies HKFRS 3 (Revised) *Business Combinations* prospectively to business combinations of which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) *Consolidated and Separate Financial Statements* in relation to accounting for the Group’s changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current interim period to which HKFRS 3 (Revised) and HKAS 27 (Revised) is applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs has had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions to which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

The application of the other new and revised HKFRSs has had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

The Group has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs 2010 ¹
HKAS 24 (Revised)	Related Party Disclosures ⁴
HKAS 32 (Amendment)	Classification of Rights Issues ²
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters ³
HKFRS 9	Financial Instruments ⁵
HK (IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement ⁴
HK (IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments ³

¹ Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

² Effective for annual periods beginning on or after 1 February 2010

³ Effective for annual periods beginning on or after 1 July 2010

⁴ Effective for annual periods beginning on or after 1 January 2011

⁵ Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

The Group's operating segments, based on information reported to the chief operating decision maker (i.e. the Group's 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.

The following is an analysis of the Group's revenue and results by operating segment for the periods under review:

	Six months ended 30 June 2010		
	PRC <i>HK\$'000</i>	Japan <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment revenue	17,930	276,264	294,194
Cost of services	(16,998)	(209,886)	(226,884)
	<u>932</u>	<u>66,378</u>	<u>67,310</u>
Gross profit			
Administrative expenses	(944)	(34,900)	(35,844)
	<u>(12)</u>	<u>31,478</u>	<u>31,466</u>
Segment (loss) profit			
Other income and gains			8,979
Impairment loss on goodwill			(2,555)
Unallocated corporate expenses			(4,912)
Profit before taxation			<u><u>32,978</u></u>
	Six months ended 30 June 2009		
	PRC <i>HK\$'000</i>	Japan <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment revenue	25,561	298,724	324,285
Cost of services	(23,408)	(205,803)	(229,211)
	<u>2,153</u>	<u>92,921</u>	<u>95,074</u>
Gross profit			
Administrative expenses	(1,055)	(32,712)	(33,767)
	<u>1,098</u>	<u>60,209</u>	<u>61,307</u>
Segment profits			
Share of loss of an associate			(48)
Other income and gains			10,624
Unallocated corporate expenses			(10,992)
Profit before taxation			<u><u>60,891</u></u>

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' salaries, share of loss of an associate, share-based payment expenses, other income and gains and impairment on goodwill. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

4. TAXATION

	Six months ended 30 June	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax		
PRC enterprise income tax	885	13,318
Japan income tax	3,616	6,641
Withholding tax on capital gain on liquidation of a subsidiary	7,804	–
	12,305	19,959
Deferred tax		
Current period	(196)	1,505
	12,109	21,464

SinoCom Beijing, the Group's principal operating subsidiary, was recognised as a key software enterprise under the State plan by the relevant PRC government authorities in January 2009 under the Law of the PRC on Enterprise Income tax. SinoCom Beijing is required to perform the re-verification process to maintain the key software enterprise status for the year ended 31 December 2009, which was subsequently approved by the relevant PRC government authorities in January 2010. Accordingly, for the six-month period ended 30 June 2009 SinoCom Beijing was subject to the unified tax rate of 25% before the completion of the re-verification process.

In accordance with the "Notice of the State Tax Bureau of the Ministry of Finance Regarding Certain Preferential Treatment Policies on Enterprise Income Tax", New and High Technical Enterprise was subject to income tax at a tax rate of 15%. SinoCom Beijing was recognised as New and High Technical Enterprise on 23 July 2009 for three years in accordance with the applicable enterprise income tax law of the PRC and was subject to income tax at a tax rate of 15% from 2009 to 2011 approved by the State Tax Bureau on 6 January 2010. Accordingly, for the six-month period ended 30 June 2010, SinoCom Beijing is subject to the tax rate of 15% before the re-verification process completes.

SinoCom Shensoft Computer Technology (Shanghai) Company Limited ("Shensoft Shanghai") and SinoCom Information Technology (Shandong) Limited ("SinoCom Shandong"), subsidiaries of the Company, are eligible for tax holidays and concession as follows:

- (a) Exemption for PRC Enterprise Income Tax for two years starting from the respective first profit-making year, and
- (b) Followed by a 50% reduction in the next three years.

Shensoft Shanghai is entitled to the tax holidays and concessions from 2006. SinoCom Shandong is entitled to the tax holidays and concessions from 2009.

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

Taxation arising in Japan comprises corporate tax, corporate enterprise tax, special local corporate tax and corporate inhabitant tax. Corporate tax is calculated at a progressive statutory rate of 18% on the portion of taxable income not exceeding Japanese Yen (“JPY”) 8,000,000 (equivalent to approximately HK\$682,000, six months ended 30 June 2009: HK\$645,000) and 30% on the portion of taxable income in excess of JPY8,000,000. Corporate enterprise tax is calculated at a progressive statutory rate of 2.95% on the portion of taxable income not exceeding JPY4,000,000 (equivalent to approximately HK\$341,000, six months ended 30 June 2009: HK\$323,000), 4.365% on the portion of taxable income in excess of JPY4,000,000 but not exceeding JPY8,000,000 and 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 2009: HK\$6,000) to JPY200,000 (equivalent to approximately HK\$17,000, six months ended 30 June 2009: HK\$16,000), depending on the headcount and capital of the entities.

Withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has been provided for in the condensed consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries.

5. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging (crediting) the following items:

	Six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
Depreciation of plant and equipment	2,560	3,662
Loss on disposal of plant and equipment	44	143
Operating lease rentals in respect of premises	19,556	20,675
Share-based payments expense	750	1,266
Net foreign exchange (gain) loss	(1,937)	6,578
Interest income	(2,819)	(5,308)
Government subsidies	(1,027)	(5,013)
	<u> </u>	<u> </u>

6. DIVIDEND

In respect of the financial year ended 31 December 2009, a final dividend of HK5.00 cents per share (total dividend HK\$55,871,000) was declared on 18 May 2010. In May and June 2010, dividend of HK\$55,868,000 was paid to the shareholders with HK\$3,000 remaining as dividend payable.

In respect of the financial year ended 31 December 2008, a final dividend of HK6.00 cents per share and a special dividend of HK4.00 cents per share (total dividend HK\$111,435,000) were declared on 1 April 2009. All such dividends were paid to the shareholders during the year ended 31 December 2009.

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

7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Earnings		
Profit for the period attributable to owners of the Company	20,677	39,372
	2010	2009
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,116,209	1,113,518
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	2,794	1,032
Weighted average number of ordinary shares for the purposes of diluted earnings per share	1,119,003	1,114,550

CHAIRMAN’S STATEMENT

On behalf of the Board of Directors (the “Board”) of SinoCom Software Group Limited (the “Company”), I am pleased to report the unaudited interim results of the Company and its subsidiaries (collectively as the “Group”) for the six months ended 30 June 2010 (the “Period”).

BUSINESS REVIEW

In the Period, the world economic climate seemed to restore growing, yet the recovery was fragile and tottering. The seemingly devastating outburst of financial crises in Europe fueled a series of Euro-zone sovereignty downgrading that rippled to the rest of the world and rendered the recovering but delicate global economy to tumble once again into anxiety. Yet, in China domestically the economic adjustments that aimed at the looming inflationary pressure were implemented to temper the overheated economy. It is against this bipolar backdrop brought that the investment eco-environment globally and in China was as confusing as it was challenging.

Competition remained keen for the Group’s software outsourcing business for the Period. China’s software outsourcing business from Japan continued to shrink. However, thanks to the Group’s solid business base in this geographical domain, we continued to enjoy competitive edges against our counterparts. On another front, customers’ demand for higher and higher levels of quality was insatiable, thus squeezing the Group’s profitability as prices remained stagnant. Our diversification into the domestic market began to pay off although its extent was not great enough to be conducive to Group’s overall performance in a significant way. In this regard, more resources will be allocated to give it a boost.

FUTURE PROSPECTS

Amid this uncertain economic environment worldwide and the keen competition that is here to stay the Group will endeavor to identify solutions and to diversify our business into potential arenas. On the other hand, our customers’ ever increasing demand for higher yet higher quality of our software services will continue to plague the burden of our labor cost. Hence, the Group is seriously considering raising our prices that have remained unchanged for years.

To pave way for the sunny days when the economy gradually recovers and to prepare ourselves for opportunities that may develop in the future, we will strive to increase our investment in software outsourcing to warrant that we can outcompete our contenders in projects and that we can meet with business expansion when projects stack up. All along, SinoCom has focused on developing rapport with its business partners, which has proved to be effective. Hence, one of our major customers is prepared to entrust its key software outsourcing projects to us. In the process of making preparations, the Group believes that it will contribute positively in the context of the Group’s future performance.

In the period, the Group began making its foray into North America by setting up its software outsourcing presence there. We also successfully bided for a software servicing contract from a UK bank and have been successfully awarded with the contract. We are now in the process of nailing down the terms and conditions and believe that a contract will soon be signed and services provided.

Despite the fierce challenges that the Group faced during the half-year period under review, we have never been wavered rather we have affirmed our convictions. The Board has every reason to be optimistic about our future prospect.

OPERATING RESULTS FOR THE PERIOD

Turnover

Turnover of the Group for the six months ended 30 June 2010 amounted to approximately HK\$294 million, representing a decrease of approximately 9% and 5%, over the first and second half year in 2009 respectively. Revenue was derived from outsourcing software development services and from technical support services, which accounted for approximately 96% and 4% of the total revenue respectively. Revenue from these two service segments dropped at 9% and 19% respectively from the same period last year. Geographical market was divided into Japan and PRC and each accounted for approximately 94% and 6% respectively. Decreased revenue from outsourcing software development services was mainly due to demand shifted from labour intensive basic development to more high level design work that the Group did not have enough human resources on the high end spectrum capturing the change at the moment. Customers also raised productivity and efficiency standards led to tighter chargeable headcount contract terms during business negotiations. The major technical support customer was fading out outsourcing strategy during the Period with a plan to completely stopping the business before end of 2010. Revenue derived therefrom was inevitably suffered. Top five customers accounted for approximately 75% of the total revenue. There was no change in the top two customers ranking from same period 2009 that they accounted for approximately 64% of the total revenue in aggregate.

Gross profit and cost of services

Gross profit of the Group for the Period amounted to approximately HK\$67 million, representing approximately a decrease of 29% over the same period last year. Non-synchronization of cost of services drop to declined turnover was the root cause. Gross profit margin was approximately 23% which was less than the 29% achieved same period last year. The 6% gross profit margin difference was mainly attributable to higher costs delivering more advance work at lower chargeable headcount contract terms as a result of demand shift and higher productivity and efficiency standards from customers.

Cost of services amounted to approximately HK\$228 million, representing a slight decrease of approximately HK\$2 million or 1%. Major costs comprised labour costs, rent, travelling, and sub-contracting out. Among which, labour costs increased by approximately HK\$4 million notwithstanding there was a decrease in turnover. Average manufacturing headcounts during the Period was 2,428, an decrease of 6% over that of 2,574 in same period last year. Most of the decreased headcounts were general technicians and interns. Labour cost per average manufacturing head increase by approximately 7% for employees located in PRC and in Japan during the Period. Labour cost consisted salary, bonus, insurance, and welfare, increased by approximately 2% above that of same period last year irrespective the decrease in headcounts. More high level engineers proportionally on the payroll cancelled out the pay cut from reduced headcounts. One of the customers introduced an “One Made” program consolidating outsourced work to several key subcontractors in the PRC required the Group among other key subcontractors to take part in handover preparation free of charge from subcontractors in Japan to be eliminated. It was actually a good move in the longer term at present cost pressure.

Other income

Other income included exchange gain, interest income and government subsidies of approximately HK\$9 million for the Period. Government subsidies were mainly training subsidies under new policies launched to encourage outsourcing software development services industry in PRC which reduced from approximately HK\$5 million last year same period to HK\$1 million as there were fewer new recruits during the Period. The Group earned an exchange gain of approximately HK\$1.9 million during the Period, where there was a loss of approximately HK\$6.6 million in the same period last year.

Operating expenses before exchange gain/loss

Operating expenses before exchange gain/loss during the Period amounted to approximately HK\$40 million, an increase of approximately 8% over that of HK\$37 million same period last year. Administrative expenses of a newly setup subsidiary in Japan for new business development was one of the accounting factor. Otherwise, the Group controlled its cost effectively. There was also an impairment loss on goodwill of a subsidiary previously acquired for an amount of HK\$2.6 million.

Income tax expenses

During the Period, income tax expenses for all subsidiaries in PRC other than the principal subsidiary, SinoCom Beijing, and those enjoying tax holidays were provided at 25%. SinoCom Beijing, being qualified as New and High Technical Enterprise, entitled to a more favorable income tax rate at 15% and tax has been therefore provided at 15%. When SinoCom Beijing is recognized as a key software enterprise under the State plan this year, it would further enjoy a lower tax rate at 10%. The 5% over-provision will be written back when key software enterprise status is granted. SinoCom Beijing was recognized as such consecutively in the past few years.

Liquidity, financial resources and gearing ratio

Net assets

As at 30 June 2010, the Group recorded total assets of approximately HK\$670 million which were financed by liabilities of HK\$99 million, minority interest of HK\$4 million and equity of HK\$567 million. The Group's net assets value as at 30 June 2010 decreased by 5% to approximately HK\$571 million as compared to approximately HK\$601 million as at 31 December 2009.

Liquidity

The Group had a total cash and bank balances of approximately HK\$545 million as at 30 June 2010 (As at 31 December 2009: approximately HK\$594 million). The Group did not have any bank borrowings. Current ratio was 7.5 times as at 30 June 2010 (As at 31 December 2009: 5.5 times).

Foreign exchange exposure

The Group generates most of the revenue in Japanese Yen and incurs most of the costs in RMB. Any depreciation of Japanese Yen against RMB will result in decrease in the income of the Group, which will have an adverse impact to the Group's profitability. Due to the recurring nature of revenue in Japanese Yen inflow, the Group naturally hedges its exposure by changing accounts receivable in Japanese Yen into RMB immediately upon receipt.

Pledge of Asset

As at 30 June 2010, the Group did not pledge any of its assets to obtain banking facilities nor have any charge on its assets (As at 31 December 2009: Nil).

Contingent Liabilities

As at 30 June 2010, the Group did not have any material contingent liabilities. (As at 31 December 2009: Nil).

OUTLOOK

Ripples of the Financial Tsunami has been affecting the Group's software development outsourcing business from Japan adversely, it took longer time to recover from the management's expectation. Currently, the Group is still under cost pressure of salary inflation, compensation plan to retain and attract high level employees, higher productivity and efficiency requirements from customers. Growth will be picked up gradually at a pace according to economic environment and factors peculiar to different sectors of the finance industry. Business with one of the Group's major customers decreased as a result of the recent recession of the finance industry in Japan. The Group's focus and expertise rest on this vertical market segment and inevitably will be affected. This customer launched a "One Made" program consolidating orders used to be outsourced to sub-contractors in Japan to the Group would be a good move

promising growth opportunities to the Group in the longer term, at current cost though for handover preparation work and resources building. New stars will be projects from the insurance industry in Japan under its current reform. Projects are being rolled out at small scale at inception stage. The Group already secured new business opportunities for these projects that will bring meaningful contributions to the Group during the massive labour intensive development stage. The demand shift trend from mid-low end moving upstream as a cost saving measure became obvious. The Group is exploring with an existing customer for equity interest cooperation in order to induce more new business opportunities from Japan. Accordingly, the Group is recruiting senior engineers as part of its reorganization in human resources pool. In the short term, average cost per head will increase. In the longer term, the Group will equip itself ready for sophisticated projects from top to bottom further strengthening its competitive edge. The Group will adjust its scale organically in accordance with the coming business volume trend. New growth in PRC or in other markets by means of merger and acquisition will be subject to uncertainties as to availability of suitable targets and the timing of completion. Nevertheless, the Group continues to keep a close eye on any acquisition opportunities on sizeable companies.

Employee and Remuneration Policies

As at 30 June 2010, total headcount of the Group reached 2,498 breaking down into 2,255 in China and 243 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 2010, there were options for 36,450,000 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 2010.

Audit Committee

The Audit Committee of the Company, which is chaired by an independent non-executive director, currently comprises three independent non-executive directors. It meets at least two times a year and meetings are attended by external auditors, the chief finance officer and the company secretary for the purpose of discussing the nature and scope of audit work, setting and monitoring the Company's internal audit program and assessing the Company's internal controls. It has reviewed this interim report, including the unaudited interim financial statements for the Period which were not required to be audited, and has recommended their adoption by the Board.

Compliance with the Code on Corporate Governance Practices

The Company is committed to maintaining a high standard of corporate governance. During the accounting period ended 30 June 2010, the Company had met the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“the Listing Rules”) except A.2.1 that Mr Wang Zhiqiang had been both the Chairman and Chief Executive Officer of the Company. The roles of the Chairman of the Board and the Chief Executive Officer were not separated because, to our belief, the separation might not enhance the Group’s efficiency and business operation. The balance of power and authority is ensured by regular discussion and meetings of the Board and active participation of independent non- executive directors. The Board continues to review its practices from time to time with an aim to improve the Group’s corporate governance practices so as to meet international best practice.

Compliance with the Model Code set out in Appendix 10 to the Listing Rules

The Company has adopted a code of conduct regarding securities transactions by directors (“Code of Conduct”) on terms no less exacting than the required standard set out in the Model Code set out in Appendix 10 to the Listing Rules (“the Code”) and the Company has made specific enquiry of all directors that they have complied with the required standard set out in the Code and the Code of Conduct.

Purchase, Sale or Redemption of Listed Securities

During the Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

By order of the board
WANG Zhiqiang
Chairman

Hong Kong, 27 August 2010

As at the date of this announcement, the executive Directors are Mr. Wang Zhiqiang, Mr. Wang Xubing, Dr. Shi Chongming, Mr. Siu Kwok Leung; the non-executive Director is Mr. Wang Nengguang; and the independent non-executive Directors are Mr. Pang Chor Fu, Professor Liang Neng and Mr. Lee Kit Wah.