



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)

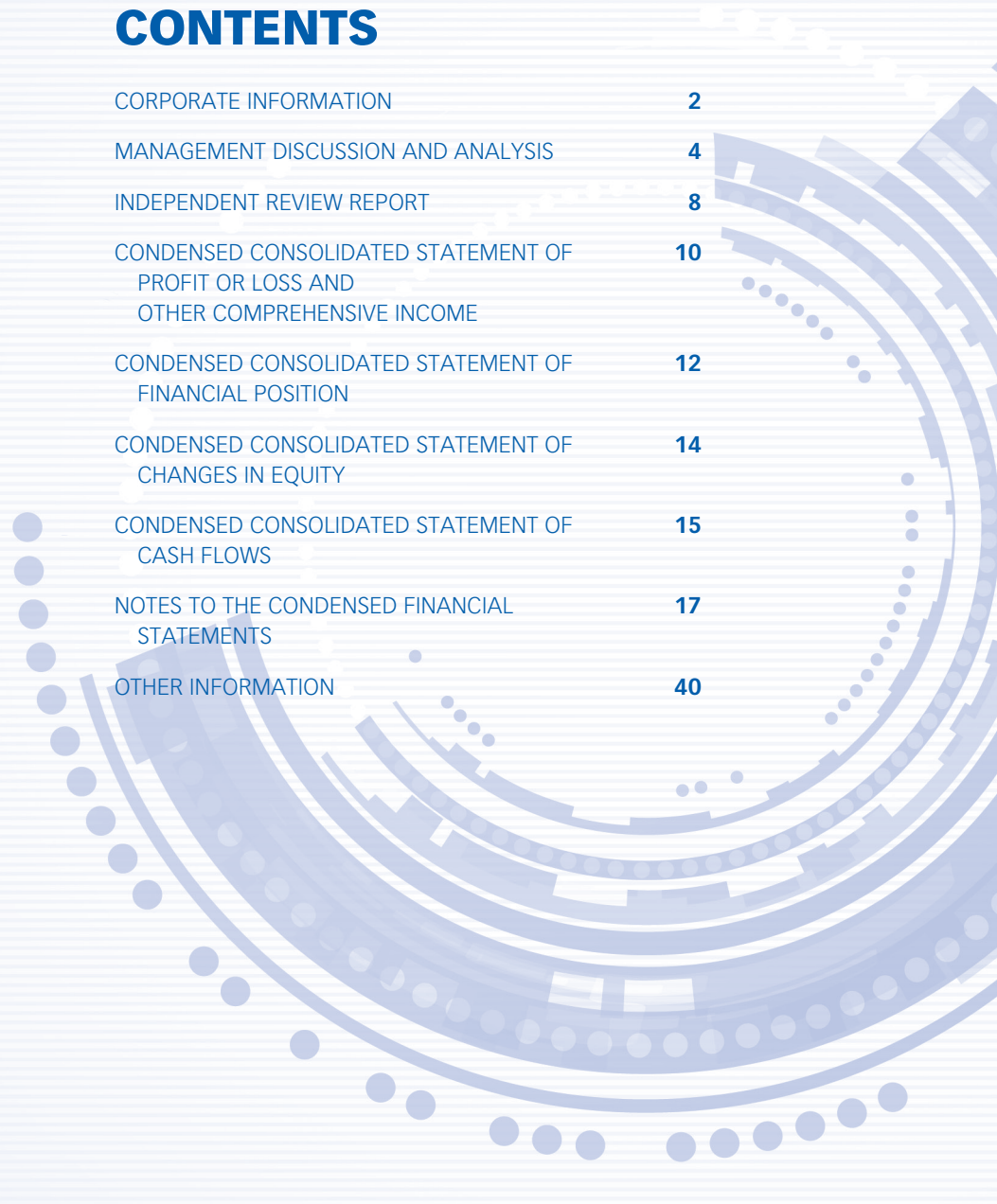
Stock Code: 0299

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SinoCom
INTERIM REPORT 2013

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CORPORATE INFORMATION

Board of Directors

Executive Directors

Wang Zhiqiang (*Co-chairman*)

Zuo Jian Zhong (*Co-chairman*)

Kotoi Hirofumi

Non-Executive Directors

Li Jian (re-designated on 30 September 2013)

Wang Xubing

Shi Chongming

Independent Non-Executive Directors

Chui Man Lung, Everett

(appointed on 10 September 2013)

Wu Hong (appointed on 10 September 2013)

Yamamoto Yoshimasa

Liang Neng (resigned on 10 September 2013)

Lee Kit Wah

(resigned on 10 September 2013)

Company Secretary

Siu Kwok Leung

(resigned on 10 October 2013)

Foo Man Yee, Carina

(appointed on 10 October 2013)

Chief Financial Officer

Kotoi Hirofumi

(resigned on 15 November 2013)

Tang Yau Sing

(appointed on 15 November 2013)

Audit Committee

Chui Man Lung, Everett*

Wu Hong

Yamamoto Yoshimasa

Liang Neng (resigned on 10 September 2013)

Lee Kit Wah

(resigned on 10 September 2013)

Salary Review Committee

Wu Hong*

Chui Man Lung, Everett

Yamamoto Yoshimasa

Wang Zhiqiang

Liang Neng (resigned on 10 September 2013)

Lee Kit Wah

(resigned on 10 September 2013)

Nomination Committee

Wang Zhiqiang*

Lee Kit Wah

(resigned on 10 September 2013)

Liang Neng (resigned on 10 September 2013)

Yamamoto Yoshimasa

Chui Man Lung, Everett

Wu Hong

Authorised Representatives

Wang Zhiqiang

Siu Kwok Leung

(resigned on 10 October 2013)

Foo Man Yee, Carina

(appointed on 10 October 2013)

* *Chairman*



Registered Office

Cricket Square Hutchins Drive
P.O. Box 2681, Grand Cayman KY1-1111
Cayman Islands

Head Office and Principal Place of Business in PRC

1/F, Ya'an International Apartment
2 Jinbao Street, Dongcheng District
Beijing, China

Principal Place of Business in Hong Kong

Unit 1601, 16/F., Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

Principal Bankers

Bank of East Asia Limited
Bank of China
Mizuho Corporate Bank (China), Ltd.
China Merchants Bank Co. Ltd.

Solicitor

Baker & McKenzie

Principal Share Registrar and Transfer Office

Bank of Butterfield International
(Cayman) Ltd.
68 Fort Street, P.O. Box 705
George Town, Grand Cayman
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
26/F., Tesbury Centre
28 Queen's Road East
Hong Kong

Auditors

RSM Nelson Wheeler
Certified Public Accountants

Stock Code

299

Website

www.sinocom.cn



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2013, the European debt crisis continued to plague the global financial market. The economy of China saw increasing downside risks while inflation stayed high. The unstable macro business climate and the continued depreciation of Japanese Yen (“JYP”) significantly affected the Group’s operation because the development of software outsourcing services for the Japanese market is still the focus of the Group. The Japanese market accounted for approximately 89.6% of total revenue of the Group for the six months ended 30 June 2013. When compared with revenue for the six months ended 30 June 2012, revenue for the same period in 2013 decreased by approximately 26.4%. The gross profit margin decreased to approximately 11.6% in the six months ended 30 June 2013 from approximately 25.1% in the corresponding period of 2012 resulting from the significant depreciation of JPY and increased direct cost of human resources in China. Exchange loss resulting from JPY depreciation affected the Group’s result materially. As a result, the Group recorded net loss of approximately HK\$57,534,000 for the six months ended 30 June 2013 whereas net profit of approximately HK\$40,239,000 for the corresponding period of 2012. The net profit for the six months ended 30 June 2012 included the gain on disposal and share of results of SinoCom DIR Business Innovation Co., Ltd. and its subsidiaries (“Joint Ventures”) in 2012. The market has been complicated and volatile in the first half of 2013, and JPY remained under downward pressure. Therefore, the management established a principle of “Go from strength to strength and build a brighter future”, requiring us to stick to our down-to-earth entrepreneurial spirit and take the opportunity of working together with our controlling shareholder for a brighter future. The management has also worked out a set of strategies, which include: (i) retaining existing customers while enlarging the clientele to boost sales revenue; (ii) expanding existing or building new development centres to lessen the downward pressure on JPY as well as the upward pressure on the cost of human resources in major cities of China; and (iii) rolling out a compensation policy linking salaries with results to enhance our efficiency. All these strategies are well on track.



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

OUTLOOK

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

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

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

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

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

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

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



REVIEW OF RESULTS AND OPERATIONS

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

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

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

Net loss attributable to owners of the Company was approximately HK\$57,418,000 for the six months ended 30 June 2013 whereas net profit attributable to owners of the Company was approximately HK\$39,555,000 for the corresponding period in 2012.

The net loss attributable to owners of the Company was primarily because there was no gain on disposal and share of results of Joint Ventures and of the decrease in operating profit as mentioned above, but offset by income tax credit of approximately HK\$3,007,000 in 2013 whereas income tax expense of approximately HK\$17,436,000 in 2012.



LIQUIDITY AND FINANCIAL RESOURCES

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

SHARE CAPITAL

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

PLEDGE OF ASSETS

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

EMPLOYEE AND REMUNERATION POLICIES

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



INDEPENDENT REVIEW REPORT

TO THE BOARD OF DIRECTORS OF
SINOCOM SOFTWARE GROUP LIMITED
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 10 to 39 which comprises the condensed consolidated statement of financial position of the SinoCom Software Group Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) as at 30 June 2013 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review 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 HKICPA. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Without qualifying our review conclusion, we draw attention to the fact that the comparative condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period ended 30 June 2012, and the relevant explanatory notes disclosed in the interim financial information have not been reviewed in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

29 January 2014

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2013

	Note	Six months ended 30 June	
		2013 HK\$'000 (unaudited)	2012 HK\$'000 (unaudited)
Revenue	4	225,863	306,802
Cost of services		(199,746)	(229,843)
Gross profit		26,117	76,959
Administrative expenses		(42,556)	(48,725)
Other income, gains and losses		(43,106)	9,109
(Loss)/profit from operations		(59,545)	37,343
Gain on disposal of joint ventures	10	–	11,073
Share of result of an associate		(996)	(935)
Share of results of joint ventures		–	10,194
(Loss)/profit before tax		(60,541)	57,675
Income tax credit/(expense)	5	3,007	(17,436)
(Loss)/profit for the period	6	(57,534)	40,239
Other comprehensive income/(expense) after tax:			
<i>Items that will be reclassified to profit or loss:</i>			
Exchange differences on translating foreign operations		8,911	(3,705)
Fair value changes on available-for-sale financial assets		9,004	–
Income tax relating to fair value changes on available-for-sale financial assets		(3,542)	–

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)

For the six months ended 30 June 2013

	Note	Six months ended 30 June	
		2013 HK\$'000 (unaudited)	2012 HK\$'000 (unaudited)
Other comprehensive income/(expense) for the period, net of tax		14,373	(3,705)
Total comprehensive (expense)/income for the period		(43,161)	36,534
(Loss)/profit for the period attributable to:			
Owners of the Company		(57,418)	39,555
Non-controlling interests		(116)	684
		(57,534)	40,239
Total comprehensive (expense)/income for the period attributable to:			
Owners of the Company		(43,567)	35,871
Non-controlling interests		406	663
		(43,161)	36,534
(Loss)/earnings per share	8		
Basic		HK(5.15) cents	HK3.55 cents
Diluted		HK(5.15) cents	HK3.54 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2013

		30 June 2013 <i>HK\$'000</i> (unaudited)	31 December 2012 <i>HK\$'000</i> (audited)
Non-current assets			
Plant and equipment	9	22,233	12,826
Goodwill		7,237	7,110
Investment in an associate		4,116	5,334
Available-for-sale financial assets	11	15,711	–
Deposits paid for acquisition of plant and equipment		–	5,817
Other deposits		565	3,088
Amount due from a fellow subsidiary		9,382	9,867
Deferred tax assets	15	2,849	4,941
		62,093	48,983
Current assets			
Trade and other receivables	12	85,808	89,436
Available-for-sale financial assets	11	23,302	16,217
Loan receivables from related companies	13	–	88,293
Tax recoverables		–	1,736
Term deposits with initial terms of over three months		88,320	181,457
Bank balances and cash		526,226	437,786
		723,656	814,925

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At 30 June 2013

	Note	30 June 2013 HK\$'000 (unaudited)	31 December 2012 HK\$'000 (audited)
Current liabilities			
Trade and other payables	14	91,256	119,499
Amount due to ultimate holding company		50	454
Current tax liabilities		18,197	24,295
		109,503	144,248
Net current assets		614,153	670,677
Total assets less current liabilities		676,246	719,660
Non-current liabilities			
Deferred tax liabilities	15	7,623	7,876
NET ASSETS		668,623	711,784
Capital and reserves			
Share capital	16	27,896	27,896
Reserves		635,939	679,506
Equity attributable to owners of the Company		663,835	707,402
Non-controlling interests		4,788	4,382
TOTAL EQUITY		668,623	711,784

Approved by the Board of Directors on 29 January 2014

Wang Zhiqiang
Director

Zuo Jian Zhong
Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2013

	Attributable to owners of the Company													Non-controlling interests	Total equity
	Share capital	Share premium	Share redemption reserve	Capital reserve	Other reserve	General reserve	Shareholder's contribution	Translation reserve	Share option reserve	Investment revaluation reserve	Retained earnings	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	HK\$'000		
For the six months ended 30 June 2012															
At 1 January 2012 (audited)	27,850	164,756	2,269	10,657	5,078	27,980	2,726	100,805	16,997	-	393,611	752,729	3,654	756,383	
Total comprehensive income for the period (unaudited)	-	-	-	-	-	-	-	(3,684)	-	-	39,555	35,871	663	36,534	
Exercise of share options (unaudited)	46	1,433	-	-	-	-	-	-	(319)	-	-	1,160	-	1,160	
Transfer of share option reserve upon forfeiture of share options (unaudited)	-	-	-	-	-	-	-	-	(213)	-	213	-	-	-	
Transfer of reserves (unaudited)	-	-	-	-	-	659	-	-	-	-	(659)	-	-	-	
Release of reserve upon disposal of joint ventures (unaudited)	-	-	-	-	-	-	-	(1,501)	-	-	1,501	-	-	-	
Dividends recognised as distribution (unaudited)	-	-	-	-	-	-	-	-	-	-	(39,054)	(39,054)	-	(39,054)	
Changes in equity for the period (unaudited)	46	1,433	-	-	-	659	-	(5,185)	(532)	-	1,556	(2,023)	663	(1,360)	
At 30 June 2012 (unaudited)	27,896	166,189	2,269	10,657	5,078	28,639	2,726	95,620	16,465	-	395,167	750,706	4,317	755,023	
For the six months ended 30 June 2013															
At 1 January 2013 (audited)	27,896	166,189	2,269	10,657	5,078	28,639	4,118	98,534	10,104	-	353,918	707,402	4,382	711,784	
Total comprehensive income for the period (unaudited)	-	-	-	-	-	-	-	8,826	-	5,025	(57,418)	(43,567)	406	(43,161)	
Transfer of share option reserve upon forfeiture of share options (unaudited)	-	-	-	-	-	-	-	-	(563)	-	563	-	-	-	
Changes in equity for the period (unaudited)	-	-	-	-	-	-	-	8,826	(563)	5,025	(56,855)	(43,567)	406	(43,161)	
At 30 June 2013 (unaudited)	27,896	166,189	2,269	10,657	5,078	28,639	4,118	107,360	9,541	5,025	297,063	663,835	4,788	668,623	

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2013

	Six months ended 30 June	
	2013	2012
Note	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES	(37,668)	26,906
Purchase of short term investments	(582,270)	–
Loan granted to related companies	(150,367)	–
Purchase of available-for-sale financial assets	(15,711)	–
Purchases of plant and equipment	(7,346)	(2,558)
Proceeds from disposal of short term investments	582,270	–
Loan repayment from related companies	230,659	–
Increase in term deposit	93,137	–
Interest received from loan receivables	2,975	–
Interest received for short term investments	1,177	–
Proceeds from disposal of plant and equipment	2	138
Acquisition of investment in an associate	–	(24,605)
Proceeds from disposal of joint ventures	10	177,626
Proceeds from disposal of available-for-sale financial assets	–	5,212
NET CASH GENERATED FROM INVESTING ACTIVITIES	154,526	155,813
Proceeds from issue of shares upon exercise of share options	–	1,160
Dividend paid	–	(39,054)
NET CASH USED IN FINANCING ACTIVITIES	–	(37,894)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the six months ended 30 June 2013

	Note	Six months ended 30 June	
		2013 HK\$'000 (unaudited)	2012 HK\$'000 (unaudited)
NET INCREASE IN CASH AND CASH EQUIVALENTS		116,858	144,825
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		437,786	606,067
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		(28,418)	(2,633)
CASH AND CASH EQUIVALENTS AT END OF PERIOD, REPRESENTED BY		526,226	748,259
Bank balances and cash		526,226	748,259



NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

1. BASIS OF PREPARATION

These condensed financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

These condensed financial statements should be read in conjunction with the 2012 annual financial statements. The accounting policies and methods of computation used in the preparation of these condensed financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2012 except as stated below.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2013. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current period and prior years except as stated below.

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

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



NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

a. Amendments to HKAS 1 “Presentation of Financial Statements” (continued)

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

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

b. HKFRS 13 “Fair Value Measurement”

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

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

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.



NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

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.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

Disclosures of level in fair value hierarchy at 30 June 2013:

	Fair value measurements as at 30 June 2013 using:			Total
	Level 1	Level 2	Level 3	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Available-for-sale financial assets				
Listed securities in Japan	23,302	–	–	23,302
Total recurring fair value measurements	23,302	–	–	23,302

There were no transfers between level 1, 2 and 3 during the six months ended 30 June 2013.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

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

(a) Information about profit or loss

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

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

4. SEGMENT INFORMATION (continued)

(b) Reconciliations of reportable segment profit or loss

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

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

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

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

4. SEGMENT INFORMATION (continued)

(c) Segment assets and liabilities

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

At 30 June 2013

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

At 31 December 2012

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

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

4. SEGMENT INFORMATION (continued)

(c) Segment assets and liabilities (continued)

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 (CREDIT)/EXPENSE

	Six months ended 30 June	
	2013 HK\$'000 (unaudited)	2012 HK\$'000 (unaudited)
Current tax		
PRC Enterprise Income Tax	28	6,191
Japan income tax	2,500	6,773
PRC withholding tax	–	198
Enterprise Income tax on capital gain on disposal of joint ventures	–	16,809
	2,528	29,971
Over provision in prior years		
PRC Enterprise Income Tax	(3,881)	(3,113)
	(1,353)	26,858
Deferred tax (note 15)		
Current period	(1,654)	(9,422)
	(3,007)	17,436



NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

5. INCOME TAX (CREDIT)/EXPENSE (continued)

Under the law of PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rates of the PRC subsidiaries is 25% from 1 January 2008 onward except as describe below.

Pursuant to the EIT Law, a subsidiary, SinoCom Beijing is recognised as a high and new technology enterprise by the relevant PRC government authorities and SinoCom Beijing was entitled to enjoy a concessionary Enterprise Income Tax rate of 15% as compared to the unified tax rate of 25% from 2012 to 2014.

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

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

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

Taxation arising in Japan comprises corporate tax, special corporate tax for reconstruction, corporate enterprise tax, special local corporate tax and corporate inhabitant tax. Corporate tax is calculated at a progressive statutory rate of 15% (six months ended 30 June 2012: 18%) on the portion of taxable income not exceeding Japanese Yen ("JPY") 8,000,000 (equivalent to approximately HK\$629,000, six months ended 30 June 2012: HK\$782,000) and 25.5% (six months ended 30 June 2012: 30%) on the portion of taxable income in excess of JPY8,000,000. Special corporate tax for reconstruction is calculated at a fixed tax rate of 10% of corporate tax starting from 1 January 2013. Corporate enterprise tax is calculated at a progressive statutory rate of 2.95% (six months ended 30 June 2012: 2.95%) on the portion of taxable income not exceeding JPY4,000,000 (equivalent to approximately HK\$314,000, six months ended 30 June 2012: HK\$391,000), 4.365% (six months ended 30 June 2012: 4.365%) on the portion of taxable income in excess of JPY4,000,000 but not exceeding JPY8,000,000 and 5.78% (six months ended 30 June 2012: 5.78%) on the portion of taxable income in excess of JPY8,000,000. Special local corporate tax is calculated at a fixed tax rate of 81% or 148% of corporate enterprise tax, depending on the amount of paid-in capital. Corporate inhabitant tax is calculated at a fixed tax rate of 17.3% or 20.7% of the corporate tax, depending on the amount of the corporate tax per annum, also with a fixed yearly amount from JPY70,000 (equivalent to approximately HK\$6,000, six months ended 30 June 2012: HK\$7,000) to JPY200,000 (equivalent to approximately HK\$16,000, six months ended 30 June 2012: HK\$20,000), depending on the headcount and capital of the entities.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

6. (LOSS)/PROFIT FOR THE PERIOD

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

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

7. DIVIDENDS

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

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

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

8. (LOSS)/EARNINGS PER SHARE

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

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

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

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

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



NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

9. PLANT AND EQUIPMENT

During the six months ended 30 June 2013, the Group disposed of certain plant and equipment with an aggregate carrying amount of approximately HK\$47,000 (unaudited) (six months ended 30 June 2012: HK\$1,526,000 (unaudited)) for proceeds of approximately HK\$2,000 (unaudited) (six months ended 30 June 2012: HK\$138,000 (unaudited)), resulting in a loss on disposal of approximately HK\$45,000 (unaudited) (six months ended 30 June 2012: HK\$1,388,000 (unaudited)). In addition, during the six months ended 30 June 2013, the Group acquired plant and equipment of approximately HK\$13,163,000 (unaudited) (six months ended 30 June 2012: HK\$2,558,000 (unaudited)).

10. INVESTMENTS IN JOINT VENTURES

On 28 February 2011, SinoCom DIR Business Innovation Co., Ltd (“SinoCom DIR”) and Daiwa Institute of Research Business Innovation Ltd. (“DIR-BI”), a corporation incorporated under the laws of Japan, entered into a subscription agreement pursuant to which DIR-BI had conditionally agreed to subscribe for, and SinoCom DIR has conditionally agreed to allot and issue to DIR-BI, the subscription shares at a total consideration of JPY1,000,000,000, which was fully paid by DIR-BI in April 2011. SinoCom DIR is a wholly owned subsidiary established by SinoCom BVI in Hong Kong in January 2011. Upon completion of the subscription, SinoCom DIR was owned as to 60% by SinoCom BVI and 40% by DIR-BI, and SinoCom DIR was classified as joint ventures as DIR-BI was able to exercise veto rights over strategic financial and operating decisions of SinoCom DIR.

On the same day, the Company, SinoCom BVI and DIR-BI entered into a shareholders’ agreement in respect of SinoCom DIR to provide for, among other matters, the basis on which the SinoCom DIR should be operated and managed, the reorganisation to be completed by the Company to put in place the corporate structure of SinoCom DIR and its subsidiaries, and grant of the put and call options by the Company and SinoCom BVI to DIR-BI.

In the event that the put option is exercised, the Company or SinoCom BVI is required to acquire the 40% equity interests in SinoCom DIR at fair value. In the event that the call option is exercised, SinoCom BVI is required to sell its 60% equity interests in SinoCom DIR to DIR-BI at fair value. In the opinion of the directors of the Company, the fair value of these options is insignificant.



NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

10. INVESTMENTS IN JOINT VENTURES (continued)

On 7 May 2012, China Way International Limited, the former controlling shareholder of the Company, entered into a sale and purchase agreement with SJI (Hong Kong) Limited in relation to the disposal of 451,604,000 shares of the Company. As the acquisition by SJI (Hong Kong) Limited constituted one of the triggering events of the call option, the call option became exercisable by DIR-BI. On 17 May 2012, DIR-BI served a call option notice to the Company and SinoCom BVI requesting SinoCom BVI to sell its 60% equity interests in SinoCom DIR to DIR-BI.

On 8 June 2012, the Company, SinoCom BVI and DIR-BI entered into an agreement to dispose of 60% equity interest of the Group in SinoCom DIR to DIR-BI for a cash consideration of JPY1,818 million (equivalent to approximately HK\$177,626,000). A gain amounting to approximately HK\$11,073,000 was recognised upon the completion of the disposal on 28 June 2012.

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	30 June 2013 HK\$'000 (unaudited)	31 December 2012 HK\$'000 (audited)
Non-current portion		
Unlisted equity securities in Japan, at cost	15,711	–
Current portion		
Unlisted equity security in Japan, at cost	–	16,217
Listed equity security in Japan, at fair value	23,302	–
	23,302	16,217



NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS (continued)

Notes:

- (a) Unlisted equity securities were carried at cost less impairment loss as they do not have a quoted market price in an active market and whose fair value cannot be reliably measured.
- (b) The investments in unlisted equity security as at 31 December 2012 became listed on the Tokyo Stock Exchange on 22 March 2013.
- (c) All available-for-sale financial assets are denominated in JPY.

12. TRADE AND OTHER RECEIVABLES

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

Note: The amount represents the interest receivable from related companies arising from the loans to the related companies (see note 13).

The Group allows an average credit period of 30 to 45 days, extending up to five months for its trade customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.



NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

12. TRADE AND OTHER RECEIVABLES (continued)

The aging analysis of trade receivables net of allowance of doubtful debts presented based on dates on which revenue was recognised, is as follows:

	30 June 2013 HK\$'000 (unaudited)	31 December 2012 HK\$'000 (audited)
0-30 days	40,378	41,697
31-60 days	14,081	19,140
61-90 days	5,012	3,828
91-180 days	4,686	3,584
181-360 days	9,261	8,032
	73,418	76,281

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

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



NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

13. LOAN RECEIVABLES FROM RELATED COMPANIES

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

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

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

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



NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

13. LOAN RECEIVABLES FROM RELATED COMPANIES (continued)

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

In the opinion of the Company's Board of Directors, the Borrowers qualify as related parties as defined under the HKAS 24 Related Party Disclosure because the Borrowers are entities that are significantly influenced by Mr. Li, a director and key management of the Company. Mr. Li has significant influence over the Borrowers evidenced by his involvement in negotiation, decision and arrangement of the Loans and full cooperation such as timing of drawdowns and repayments of the Loans by the Borrowers under Mr. Li's directions.

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

The Group reviewed the recoverable amount of loan receivables from related companies at 31 December 2012 to ensure that adequate impairment losses were made for irrecoverable amounts. The loans receivables from related companies were fully repaid during the six months ended 30 June 2013. In this regard, the directors of the Company considered that the credit risk of the Group on loan receivables from related parties is insignificant.

The concentration of credit risk of the Group on loan receivables from related companies by geographical location was in Japan.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

14. TRADE AND OTHER PAYABLES

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

The average credit period of trade payables is 30 to 60 days.

The following is an aged analysis of trade payables based on invoice dates at the end of the reporting period:

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

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

15. DEFERRED TAXATION

The following are the major deferred tax liabilities/(assets) recognised and movements thereon during the current period and prior year:

(a) Deferred tax assets

	Accrued expenses HK\$'000	Allowance for doubtful debts HK\$'000	Total HK\$'000
At 1 January 2012 (audited)	(7,375)	(1,642)	(9,017)
Charge to profit or loss for the year (audited)	2,425	1,636	4,061
Exchange differences (audited)	9	6	15
At 31 December 2012 (audited)	(4,941)	–	(4,941)
Charge to profit or loss for the period (unaudited)	2,141	–	2,141
Exchange differences (unaudited)	(49)	–	(49)
At 30 June 2013 (unaudited)	(2,849)	–	(2,849)

(b) Deferred tax liabilities

	Prepaid expenses HK\$'000	Distributable profit of the PRC subsidiaries HK\$'000	Gain on deemed disposal of subsidiaries HK\$'000	Investment revaluation reserve HK\$'000	Total HK\$'000
At 1 January 2012 (audited)	1,365	7,956	12,519	–	21,840
Reversal upon payment of withholding tax (audited)	–	(198)	–	–	(198)
Credit to profit or loss for the year (audited)	(149)	(1,097)	(12,519)	–	(13,765)
Exchange differences (audited)	(1)	–	–	–	(1)
At 31 December 2012 (audited)	1,215	6,661	–	–	7,876
Credit to profit or loss for the period (unaudited)	(1,059)	(2,736)	–	–	(3,795)
Charge to other comprehensive income for the period (unaudited)	–	–	–	3,542	3,542
At 30 June 2013 (unaudited)	156	3,925	–	3,542	7,623

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

16. SHARE CAPITAL

	30 June 2013 HK\$'000 (unaudited)	31 December 2012 HK\$'000 (audited)
Authorised:		
4,000,000,000 ordinary shares of HK\$0.025 each	100,000	100,000
Issued and fully paid:		
1,115,835,128 ordinary shares of HK\$0.025 each	27,896	27,896

A summary of the movements in the issued share capital of the Company is as follows:

	Number of shares issued '000	Nominal value of shares issued HK\$'000
At 1 January 2012 (audited)	1,113,979	27,850
Issue of shares from exercise of share options (audited) (Note)	1,856	46
At 31 December 2012, 1 January 2013 (audited) and 30 June 2013 (unaudited)	1,115,835	27,896

Note: During the year ended 31 December 2012, share options to subscribe for 1,856,000 ordinary shares of HK\$0.025 each were exercised at HK\$0.625 per share. These shares rank pari passu with other shares in issue in all respect.

17. SHARE-BASED PAYMENTS

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 2 April 2004 for the primary purposes of providing incentives to eligible employees, and will expire on 1 April 2014. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees to subscribe for shares in the Company.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

17. SHARE-BASED PAYMENTS (continued)

Details of specific category of options are as follows:

Date of grant	Vesting period	Exercisable period	Exercise price
10/11/2004	10/11/2004–09/05/2008	10/11/2005–09/11/2014	HK\$0.625
24/01/2006	24/01/2006–23/01/2010	24/01/2007–23/01/2016	HK\$1.3875
28/01/2008	28/01/2008–27/01/2011	28/01/2008–27/01/2018	HK\$1.36
28/01/2008	28/01/2008–27/01/2013	28/01/2009–27/01/2018	HK\$1.36

The following table discloses movements of the number of the Company's shares under options held by employees, during the six months ended 30 June 2013 are as follows:

Date of grant	Outstanding at 1/1/2013 (audited)	Exercised during the period (unaudited)	Forfeited during the period (unaudited)	Outstanding at 30/6/2013 (unaudited)
24/01/2006	6,720,000	–	(240,000)	6,480,000
28/01/2008	9,670,000	–	(790,000)	8,880,000
	16,390,000	–	(1,030,000)	15,360,000

The following table discloses movements of the number of the Company's shares under options held by employees, during the six months ended 30 June 2012 are as follows:

Date of grant	Outstanding at 1/1/2012 (audited)	Exercised during the period (unaudited)	Forfeited during the period (unaudited)	Outstanding at 30/6/2012 (unaudited)
10/11/2004	4,756,000	(1,856,000)	–	2,900,000
24/01/2006	14,360,000	–	(400,000)	13,960,000
28/01/2008	12,410,000	–	–	12,410,000
	31,526,000	(1,856,000)	(400,000)	29,270,000

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was HK\$0.94 (unaudited).

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

18. RELATED PARTY TRANSACTIONS

Transactions with related parties

In addition to those related party transactions and balances disclosed elsewhere in note 13 to the condensed financial statements, the Group had the following transactions with its related parties during the period:

	Six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Revenue — provision of administrative services to joint ventures	–	1,608
Cost of services — receiving software outsourcing services from joint ventures	–	4,009
Cost of services — receiving travelling and tourism services from an associate	760	800
Cost of services — receiving technical support services from an associate	365	–
Cost of services — rental charges from a fellow subsidiary	658	–
Administrative expenses — receiving management consulting services from ultimate holding company	292	–

During the six months ended 30 June 2012, the Group transferred plant and equipment with a net carrying value of HK\$1,278,000 (unaudited) to joint ventures at nil consideration.

Outstanding balances at the end of the reporting period

	30 June	31 December
	2013	2012
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Amount due from a fellow subsidiary (Note a)	9,382	9,867
Amount due to ultimate holding company (Note b)	50	454



NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

18. RELATED PARTY TRANSACTIONS (continued)

Outstanding balances at the end of the reporting period (continued)

Notes:

- (a) The amount represents an advance to 福建聯迪資訊科技有限公司 (Fujian Liandi Information Technology Limited), a wholly-owned subsidiary of SJI, for the intention to lease office premises located in Beijing, the PRC during the year ended 31 December 2012. The lease agreement was entered into on 18 February 2013. This lease contract is a continuing connected transaction as set out in the announcement of the Company dated 18 February 2013. As at 30 June 2013 and 31 December 2012, the amount was unsecured, non-interest bearing and had no fixed term of repayment. In the opinion of the directors of the Company, the amount will not be settled within twelve months from the end of the reporting period, hence it was classified as a non-current asset.
- (b) The ageing for the amount due to ultimate holding company is within 30 days based on invoice date.

Transactions with other related companies

During the six months ended 30 June 2013, SinoCom Japan granted several unsecured and committed loan facilities to the Borrowers and certain loans were drawn down by the Borrowers (see note 13). In the opinion of the Board of Directors of the Company, the Borrowers were qualified as related parties and the Loans were regarded as related party transactions as defined under the HKAS 24 *Related Party Disclosure*. The interest income recognised in respect of the Loans to the Borrowers is JPY20,962,000 (equivalent to approximately HK\$1,758,000) (unaudited) (for the six months ended 30 June 2012: nil (unaudited)) for the six months ended 30 June 2013.

Compensation of key management personnel

The remuneration of directors and other members of key management during the period is as follows:

	Six months ended 30 June	
	2013 HK\$'000 (unaudited)	2012 HK\$'000 (unaudited)
Salaries and other benefits	10,253	10,830
Retirement benefits scheme contributions	371	367
	10,624	11,197

The remuneration of directors is determined by the salary review committee. The remuneration of the key executives is determined by the internal salary review committee of five members comprising the chairman, president, and three vice presidents of the Company having regard to the performance of individuals and market trends.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

19. OPERATING LEASE COMMITMENTS

At the end of the respective reporting periods, the Group had commitments for future minimum lease payments in respect of rental premises which fall due as follows:

	30 June 2013 HK\$'000 (unaudited)	31 December 2012 HK\$'000 (audited)
Within one year	8,061	19,807
In the second to fifth year inclusive	14,677	7,103
	22,738	26,910

Operating lease payments represent rentals payable by the Group for its office premises. Leases are negotiated and rentals are fixed for lease term from one to three years.

20. CAPITAL COMMITMENTS

	30 June 2013 HK\$'000 (unaudited)	31 December 2012 HK\$'000 (audited)
Capital expenditure in respect of acquisition of plant and equipment contracted for but not provided for	1,446	917

21. EVENTS AFTER THE REPORTING PERIOD

The directors of the Company declared the special dividend of HK\$0.07 per ordinary share on 9 October 2013 and the ordinary resolution of approval of special dividend was duly passed in the extraordinary general meeting of the Company on 11 November 2013.

22. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 29 January 2014.



OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES OF THE COMPANY (THE "SHARES"), UNDERLYING SHARES AND DEBENTURES

As at 30 June 2013, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock 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 provisions of the SFO); or (b) to be recorded in the register required to be kept under section 352 of the SFO or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"), were as follows:

(a) Interests and short positions in Shares and underlying Shares in the Company

Name of Director	Capacity/ Nature of interests	Number of shares	Notes	Approximate percentage of issued share capital of the Company as at 30/6/2013
Wang Xubing	Corporate interest	111,396,000(L)	1	9.98%
Wang Zhiqiang	Corporate Interest	111,396,000(L)	2	9.98%
Shi Chongming	Beneficial owner	5,543,200(L)		0.49%



Notes:

1. These shares are beneficially owned by China Way International Limited ("China Way"). By virtue of his 51% shareholding interest in China Way. Mr. Wang Xubing is deemed or taken to be interested in the 111,396,000 shares of the Company owned by China Way for the purpose of SFO.
2. These shares are beneficially owned by China Way. By virtue of his 49% shareholding interest in China Way. Mr. Wang Zhiqiang is deemed or taken to be interested in the 111,396,000 shares of the Company owned by China Way for the purpose of SFO.
3. As at 30 June 2013, the total issued share capital of the Company is amounted to 1,115,835,128 shares.

Abbreviations: "L" stands for long position

(b) Interests in shares of associated corporated of the Company

Name of associated corporation	Name of Director	Capacity/ Nature of interest	No. of ordinary shares (US\$1.00 each)	Percentage of shareholding
China Way	Wang Xubing	Corporate interest	51(L)	51%
China Way	Wang Zhiqiang	Corporate interest	49(L)	49%

Save as disclosed above, as at 30 June 2013, none of the Directors and the chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock 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 provisions of the SFO); or (b) to be recorded in the register required to be kept under section 352 of the SFO or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code.



INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE SUBSTANTIAL SHAREHOLDERS

As at 30 June, 2013, so far as is known to the Directors, the following persons have an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO and are recorded in the register kept by the Company under section 336 of the SFO:

Long positions in the Shares and Underlying Shares

Name	Capacity/ Nature of Interest	Number of Ordinary Shares	Approximate percentage of total interests in issued capital as at 30/6/2013	Notes
SJI Inc.	Corporate Interest	636,688,918(L)	57.06%	1
SJ Asia Pacific Limited	Corporate Interest	636,688,918(L)	57.06%	1
SJI (Hong Kong) Limited	Beneficial Owner	636,688,918(L)	57.06%	1
NEC Capital Solutions Limited	Corporate Interest	268,000,000(L)	24.01%	2
NEC Corporation	Corporate Interest	268,000,000(L)	24.01%	2
Risa Partners Inc.	Security Interest	268,000,000(L)	24.01%	2
China Way	Beneficial Owner	111,396,000(L)	9.98%	3 & 4
Wang Xubing	Corporate Interest	111,396,000(L)	9.98%	3
Wang Zhiqiang	Corporate Interest	111,396,000(L)	9.98%	4



Name	Capacity/ Nature of Interest	Number of Ordinary Shares	Approximate percentage of total interests in issued capital as at 30/6/2013	Notes
Zhang Yue	Spouse Interest	111,396,000(L)	9.98%	5
Yuan Yue Ling	Spouse Interest	111,396,000(L)	9.98%	6
Dymagin Global Limited	Beneficial owner	109,000,000(L)	9.77%	7
Sado Yasutaka	Corporate Interest	109,000,000(L)	9.77%	7
Nomura Holdings Inc.	Corporate Interest	72,356,100(L)	6.49%	8
Nomura Research Institute Ltd.	Beneficial owner	72,356,100(L)	6.49%	8
Mizuho Financial Group Inc.	Corporate Interest	350,000,000(L)	31.37%	9

Notes:

1. SJI Inc. is the ultimate holding company of SJI (Hong Kong) Limited, the controlling shareholder of the Company. SJI (Hong Kong) Limited is a wholly owned subsidiary of SJ Asia Pacific Limited. SJ Asia Pacific Limited is wholly owned by SJI Inc. By virtue of the SFO, SJI Inc., SJI (Hong Kong) Limited and SJ Asia Pacific Limited are deemed to be interested in the same parcel of Shares.
2. Risa Partners Inc. ("Risa Partners") is a wholly-owned subsidiary of NEC Capital Solutions Limited ("NEC Capital") which is a controlled corporation of NEC Corporation. By virtue of SFO, Risa Partners, NEC Capital and NEC Corporation are deemed to be interested in the same parcel of Shares.



3. These shares are beneficially owned by China Way International Limited ("China Way"). By virtue of his 51% shareholding interest in China Way. Mr. Wang Xubing is deemed or taken to be interested in the 111,396,000 shares of the Company owned by China Way for the purpose of the SFO.
4. These shares are beneficially owned by China Way. By virtue of his 49% shareholding interest in China Way. Mr. Wang Zhiqiang is deemed or taken to be interested in the 111,396,000 shares of the Company owned by China Way for the purpose of the SFO.
5. Madam Zhang Yu is the wife of Mr. Wang Xubing and is deemed to be interested in the 111,396,000 shares in which Wang Xubing is deemed to be interested for the purpose of the SFO.
6. Madam Yuan Yue Ling is the wife of Mr. Wang Zhiqiang and is deemed to be interested in the 111,396,000 shares in which Mr. Wang Zhiqiang is deemed to be interested for purpose of SFO.
7. Dymagin Global Limited is a company wholly owned by Mr. Sado Yasutaka. Accordingly, Mr. Sado Yasutaka is deemed to be interested in the shares of the Company by virtue of SFO.
8. Nomura Holdings Inc, is the ultimate holding company of Nomura Research Institute Ltd. By virtue of the SFO, Nomura Holdings Inc. and Nomura Research Institute Ltd. are deemed to be interested in the same parcel of Shares.
9. Mizuho Financial Group Inc. is wholly owned by Mizuho Bank Ltd.
10. As at 30 June, 2013, the issued share capital of the Company is 1,115,835,128 shares.

Abbreviations: "L" stands for long position

Save as disclosed above, as at 30 June 2013, the Directors and the chief executive of the Company were not aware of any person who has an interest or short position in the Shares, or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was recorded in the register kept by the Company under section 336 of SFO.

Share Option Scheme

The Company's share option scheme (the "Scheme") was adopted on 2 April, 2004 for the purpose of providing incentives to eligible employees. The Scheme will expire on 1 April, 2014. Under the Scheme, the Board of Director of the Company may grant options to eligible employees to subscribe for shares in the Company.

Details of specific category of options are as follows:

Category	Date of Grant	Exercise Period	Exercise Price HK\$
Category A	10 November, 2004	10.11.2005–09.11.2014	0.625
Category B	24 January, 2006	24.01.2007–23.01.2016	1.3875
Category C	28 January, 2008	28.01.2008–27.01.2018	1.36

The following table discloses movements of the number of the Company's shares under options held by employees, during the six months ended 30 June 2013 are as follows:

Date of grant	Outstanding at 1/1/2013 (audited)	Exercised during the period (unaudited)	Forfeited during the period (unaudited)	Outstanding at 30/6/2013 (unaudited)
24/01/2006	6,720,000	–	(240,000)	6,480,000
28/01/2008	9,670,000	–	(790,000)	8,880,000
	16,390,000	–	(1,030,000)	15,360,000

Notes:

1. The vesting period of Category A is from 10 November, 2004 to 9 May, 2008.
2. The vesting period of Category B is from 24 January, 2006 to 23 January, 2010.
3. The vesting period of Category C is 28 January, 2008 to 27 January, 2011 and 28 January, 2008 to 27 January, 2013 respectively.
4. 1,030,000 share option were forfeited during the period.

Save as disclosed above, no share option was granted under the Scheme.



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 Executives 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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2013, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

INTERIM DIVIDEND

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct for securities transactions and dealing (the "Code of Conduct") by Directors on terms no less exacting than the required standard set out in Appendix 10 to Listing Rule (the "Model Code"). The Company has made specific enquiry of all Directors as to whether they have complied with the required standard set out in the Model Code and the Code of Conduct during the six month period ended 30 June 2013.

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



CHANGE OF DIRECTORS' INFORMATION

The change of Director's information as required to be disclosed pursuant to Rule 13.51B of the Listing Rules are set out below:

1. Mr. Zuo Jian Zhong has been appointed as the co-chairman of the Company in place of Mr. Kotoi Hirofumi with effect from 1 March, 2013.
2. Mr. Li Jian has been re-designated from an executive director to a non-executive director on 30 September, 2013.
3. Mr. Wu Hong was appointed as the chairman of the Salary Review Committee on 9 October, 2013.
4. The monthly salary of Mr. Li Jian had been temporary reduced from HK\$100,000 to HK\$50,000 for 6 months effective from 30 September, 2013.
5. Mr. Kotoi Hirofumi has resigned as the Chief Financial Officer of the Company on 15 November, 2013.
6. The Director's fee of Mr. Zuo Jian Zhong has changed to HK\$100,000 per month with effect from 1 February, 2014.

CORPORATE GOVERNANCE

During the six month period ended 30 June 2013, the Company has applied and complied with most of the applicable provisions as set out in the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) contained in Appendix 14 (the "New CG Code") (collectively referred as 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 for the deviation disclosed herein.



Code Provision	Deviation	Considered Reason for deviation
A.2.1 The role of chairman and chief executive should be separate.	Mr. Wang Zhiqiang has been both the chairman and the chief executive officer.	The Board considered that vesting the roles of chairman and CEO in the same person facilitates the execution of the Group business strategies and maximizes effectiveness of its operation. Further, as Mr. Kotoi Hirofumi served as co-chairman of the Board from 11 June 2012 to 1 March 2013, following which Mr. Zuo Jian Zhong has served as co-chairman of the Board since 1 March 2013, the Board considered that there is a sufficient balance and division of responsibilities and authority.
A.3.2 The Company should maintain on its website and the Exchange's website an updated list of its directors role and function.	The Company failed to maintain on its website an updated list of its directors role and function.	Due to inadvertent oversight, the Company failed to update itself regarding the latest changes to the CG Code, and failed to maintain the requisite information on the Company website and the Exchange's website.
A.5.6 The Company should have a policy concerning diversity of board members.	The Company failed to establish a Board Diversity Policy.	Due to inadvertent oversight, the Company failed to update itself on the recent changes of CG Code.
A.6.4 The Board should establish written guidelines for relevant employees in respect of securities dealing.	The Company did not have written guidelines for relevant employees in respect of securities dealing.	Due to inadvertent oversight, the Company failed to update itself regarding the latest changes to the CG Code, and failed to prepare relevant written guidelines.



Code Provision	Deviation	Considered Reason for deviation	
A.6.5	The Directors should be provided with training on a regular basis and the training record should be properly maintained.	The Company failed to keep a proper and complete record of training provided to the Directors.	Due to inadvertent oversight, the Company failed to maintain a proper and complete training record.
C.1.2	Management should provide all members of the Board with monthly updates of the Group's business performance.	The Company did not provide all members of the Board with monthly updates of the Group's business performance.	Due to inadvertent oversight, the Company failed to update itself on the recent changes to CG Code.
D.3.1	The Board should establish terms of reference to perform Corporate Governance functions.	The Company failed to establish terms of reference to perform Corporate Governance functions.	Due to inadvertent oversight, the Company failed to update itself on the recent changes to CG Code.
E.1.4	The Board should establish a shareholders' communication policy.	The Company failed to establish a shareholders' communication policy.	Due to inadvertent oversight, the Company failed to update itself on the recent changes to CG Code.

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

INTERNAL CONTROL

Further, as stated in the announcement of the Company dated 27 January 2014, the Company has engaged an international accounting firm (the "Firm") to conduct an internal control review (the "Review") over selected areas of the Company's financial reporting process. The selected areas include related party loan transactions, delegation of authority, cash management, and the Board's involvement in related party loan transactions in the Company, SinoCom Computer System (Beijing) Co., Ltd. ("SinoCom Beijing") and SinoCom Japan. A report dated 20 February 2014 was issued by the Firm to the Board ("the Internal Control Report"), containing observations in relation to the selected areas mentioned below. In performing the Review, the Firm did not carry out an audit or other assurance engagement



in accordance with applicable professional standards. Accordingly, the Firm provided no opinion, attestation or other form of assurance with respect to its work or the information upon which its work was based.

A. Policies and Procedures

There are a lack of formal policies and procedures with respect to related party loan transactions, bank account management, use of company stamp, bank transaction management, physical and surplus cash management, payment request verification, significant business transactions, and information and communication of the Board.

In addition, the corporate governance policies are incomplete and the Terms of Reference of the Board has not sufficiently defined the roles and responsibilities of directors.

B. Delegation of Authority (“DoA”)

There is a lack of DoA at the Group level. SinoCom Beijing and SinoCom Japan’s DoA frameworks are incomplete and need to be more comprehensive.

C. Board meeting and minutes

Board meeting procedures have not been formalised and documented; and board minutes have not been properly maintained and retained.

D. Cash and Bank management

The responsible staff members have unlimited authority over all bank transactions; and there is a lack of formal mandate to empower employees to execute bank transactions.

Not all evidence of bank reconciliation is retained for all bank accounts; and there is a lack of independent review over bank reconciliations.

E. Board’s involvement in significant business transactions

The policy over the management of significant transactions is insufficient and the policy has not been announced and adopted by all subsidiary companies.



In light of the Internal Control Report, the Board will adopt the following measures to enhance the internal controls and corporate governance of the Group:

- Management of the Company will establish a set of policies and procedures with respect to the areas under review, which are detailed in item A above.
- The corporate governance policies, the terms of references of the Board, the Board meeting procedures, the DoA and bank reconciliation procedures will be enriched and/or enhanced to meet current regulatory requirements and market expectations.
- All policies and procedures will be implemented after the approval of the Board. They will be well communicated to all relevant members of staff and management; and additional measures will be in place to monitor the implementation and application of the policies and procedures.
- Board meeting procedures will be formalised and documented and board minutes will be properly prepared, maintained and retained.
- Controls over cash management and bank transactions will be enhanced, which include but not limited to setting authority limits for bank transactions, enhancing the monitoring controls over surplus, retaining the evidence of the bank reconciliations and performing independent review over bank reconciliations.
- The policy over the management of significant transactions will be enriched and adopted by all subsidiaries.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the period under review, none of the Company or any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.



AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group, and to review the Company's annual report and to provide advice and comments thereon to the Board. The audit committee comprises of Mr. Chui Man Lung, Everett (Chairman), Mr. Wu Hong and Mr. Yamamoto Yoshimasa.

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

SUSPENSION OF TRADING

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

By order of the Board

Wang Zhiqiang

Co-Chairman

Zuo Jian Zhong

Co-Chairman