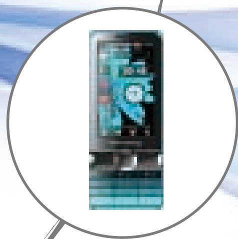
Interim Report **2012**



SIM Technology

SIM TECHNOLOGY GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code : 2000)

MARKET AND BUSINESS REVIEW

Business Review

In the first half of 2012 ("1H-2012"), SIM Technology Group Limited (the "Company") and its subsidiaries (the "Group") has encountered unprecedented difficulties in its operations. Perhaps most importantly, the Group recorded a significant loss in handset business. In the global handset industry, virtually every other handset providers, save for two globally dominant brands, also encountered daunting challenges. Under such circumstances, our customers were adversely affected and we were no exception. Our profit managed to remain stable in the communication module segment, but the sluggish global economy dragged down the market demand beneath expectations during the first half of the year. There was strong market demand for display modules, in particular for capacity touch panels ("CTP"), as our production lines were still at the construction stage in 1H-2012 and has not yet been able to make a profit contribution to the Group. Besides, the impairment on goodwill from the acquisition of a subsidiary in 2009 increased its loss during the period. Therefore, the net loss of the Group for 1H-2012 surged to HK$58.3 million (2011: HK$18.7 million).

Handset business

In 1H-2012, the transition to high-end ODM in our handset business was unsuccessful mainly due to the unexpected serious problems occurred in the Group's targeted market and customers. The significant changes in the global handset industry, and two handset giants locked up more than 90% of the profit of the entire handset industry, leaving other handset providers to operate at a loss or struggle with gross profit plummeting to the brink of losses.

Local Japanese market

The above said handset giants have also taken a market share exceeding 50% or more from the local Japanese brands. The high-end international ODM market, particularly in Japan, was the key market for our transition into the high-end ODM in handset business, but our Japanese customers have now encountered unexpected difficulties requiring them to replan their business strategies and directions. The original projects, which we had previously secured and including products developed and evaluated by us, were all cancelled while the new projects are pending their strategic decision. Even if the new projects could be confirmed shortly, due to the long product development cycle, they would not contribute to our business results this year and the first half of next year. The Group recorded some shipment of ODM smart phones to the Chinese operators under a Japanese brand in 1H-2012, but was below our expectations. In addition, the said Japanese brand suspended the business cooperation with the Group starting from the second half of 2012 because of its new investors. Meanwhile the Group is holding exploratory discussions with new international customers, but any business resulting is not expected to contribute to our results in the near term.

Operator procurement market

The operators have secured a dominant role in the smart phone market by offering tariff subsidies and procurement through tendering. Due to the practice of bulk volume procurement, branded handset providers have adopted a low-price strategy for tendering intending to win the tender at the lowest possible price, with the aim to capture a larger market share. In using this approach, the branded handset providers do not intend to gain profit and even anticipate losses. Under such circumstances, the Group, as an ODM handset provider, is also not likely to record a profit. The Group even needs to provide credit terms to some renowned customers. Since both the handset sales volume and turnover of this market are huge, we will not exit this market but will adopt the strategy of risk control and keep on exercising our minimum customer price level policy. Although our monthly production and delivery capacity of smart phones exceeded 1 million units since November 2011, the total shipping volume of our smart phones reached only 2.16 million units in 1H-2012.

Open market

The Group has exited the low-to mid-end feature phone market. As all current handset product sales in the open market are smart phones, and this market is open and therefore highly competitive, both our shipping volume and gross profit were below expectation.

New market expansion for handsets

Due to the intense competition caused by the commoditisation in the traditional handset market, product differentiation is the way forward for the Group. Towards this end, the Group is actively leading the way in expanding into new market segments for handsets, including creating smart phones for industry use and for "Internet of Things" applications. Orders for these products should earn a more reasonable gross profit for the Group even though the quantity of each order is not high. This differentiation would represent a challenging repositioning and retransformation of the Group's handset business.

Broaden income sources and reduce expenditures to control costs

Taking into account that the benefits of the Group's efforts to broaden income sources (increase income) will not be too evident in the short term, the Group has redoubled its efforts to control expenditures and lower costs in recent years and these efforts have begun to yield fruit.

Communication module business

Regarding communication modules, clients and end users alike in overseas markets experienced strong cost pressure due to the testing economic conditions and subsequent lack of consumer confidence. Against this unfavourable backdrop, however, the Group's competitive products were able to accelerate their penetration into markets both in Europe and North America as it forged closer collaboration with overseas operators. While the SIM900 (2G) family remained the most popular product in the wireless module segment, the SIM5320 (3G) was also well-received due to its backward compatibility with 2G products. Besides, the SIM5320's "value for money" advantage was endorsed by well-known operators in North America to their customers. Furthermore, the Group also launched the SIM800 family of products utilising the MTK platform, with a low-cost advantage, targeted at a wide-range of market segments. In the People's Republic of China ("PRC"), the Group maintained its leading market share and boosted its collaboration with major local operators on M2M application projects, and these projects have been widely deployed in several areas.

Display modules business

Anticipating the continuous market demand for the CTP used in smart phones and other handheld terminals, the Group has integrated its display module business unit with the CTP manufacturing plants in both Shanghai and Shenyang to form a new display module business unit. This new business unit will design and produce LCM display modules and CTP modules as well as hybrid LCM-CTP modules which could support the Group's ODM smart phones, enabling the Group's handsets to stay ahead of the competition. To exploit this business opportunity, the Group has expanded the display module business to external sales. These modules have enjoyed a positive market response since their debut. In June alone, the shipping volume of CTP modules accounted for 70% of the Group's total shipping volume of display modules and the management believes that sales will sustain upward momentum in the near future.

Interim dividend

The board of directors of the Company (the "Board") does not recommend the payment of interim dividend to shareholders of the Company for the six months ended 30 June 2012.

PROSPECTS

Although the operating environment of the handset industry will continue to be challenging, the scale of the handset business is not likely to be replaced in the short term. While exploring an appropriate direction for its transition, the Group continues its ongoing efforts in the R&D of mid-range to high-end handsets, including 4G LTE smart phones to meet the strict quality specifications and price requirements of customers and operators. In addition, the Group will devote greater resources to develop new markets. The Group is committed to exploring new opportunities in differentiating smart phones in areas such as industrial applications and for the "Internet of things" segments in order to expand market coverage and enhance overall gross profit margin of the Group's handset business.

Looking ahead, the handset industry and the global operating environment are fraught with challenges, and the Group's handset business is expected to take time to recover. However, with a committed management team and a healthy financial position, in addition to the rising growth momentum and strong competitive edge in the communication module and display module segments, the management believes the Group should return to profitability once the plan for business repositioning and transition is successfully implemented. Thus, we are confident of achieving sustained growth in the medium-to-long term.

APPRECIATION

The Board would like to thank our shareholders, customers, suppliers, bankers and professional advisers for their support of the Group and to extend our appreciation to all our staff for their dedication and contribution throughout the reporting period.

Yeung Man Ying
Chairman

Hong Kong, 21 August 2012

FINANCIAL REVIEW

For the six months ended 30 June 2012 ("1H-2012"), the Group's revenue increased slightly by 4.1% to HK$1,316.7 million (2011: HK$1,265.4 million) as compared with that of the first half of 2011 ("1H-2011"). The sales increase was attributable to the increase in the sale of ODM handsets in 1H-2012, which had much higher average selling price than feature phones.

The gross profit of the Group increased by 6.7% to HK$131.4 million (2011: HK$123.2 million) for 1H-2012 as compared to 1H-2011 while the gross profit margin stayed flat at 10% (2011: 9.7%).

The Group incurred a loss for the reporting period of HK$58.3 million (2011: HK$18.7 million). The loss was mainly attributable to the significant segment loss incurred in handsets and solutions segment as well as the recognition of impairment on the goodwill arising from the acquisition of a subsidiary in year 2009. The basic loss per share was HK3.4 cents (2011: HK1.2 cents).

Segment results

	Six months ended 30 June 2012			Six months ended 30 June 2011		
	Revenue HK$'M	**Gross profit HK$'M**	**Gross profit margin %**	Revenue HK$'M	Gross profit HK$'M	Gross profit margin %
Handsets and solutions	**1,037**	**83**	**8.0%**	934	76	8.2%
Wireless communication modules	**241**	**45**	**18.9%**	273	51	18.6%
Display modules	**39**	**3**	**8.2%**	58	(4)	(6.3%)
Total	**1,317**	**131**	**10.0%**	1,265	123	9.7%

Handsets and solutions

For 1H-2012, the revenue of the handsets and solutions segment increased by 11.1% because of the increase in ODM sales as compared to 1H-2011. The revenue of ODM handsets and solutions was about 50% and 29% (2011: 27% and 47%) respectively of the total revenue of the Group. The turnover of smart phones for 1H-2012 was about 96% (2011: 8%) of the turnover of the handsets and solutions segment.

Wireless communication modules

For 1H-2012, because of the testing economic conditions and subsequent lack of consumer confidence, market demand was weak. The revenue of wireless communication modules decreased by 11.7% as compared with that in 1H-2011 but the gross margin stayed flat at 18.9% (2011: 18.6%) in 1H-2012.

Display modules

Portion of the display modules had been included as part of the Group's full handset sales, actual growth of display modules were embed in the Group's ODM business. The gross profit margin of display modules increased to 8.2% (2011: loss of 6.3%) due to the significant increase in the proportion of the CTP revenue out of the total display modules revenue (almost all revenue in 1H-2011 were from LCM modules), and the gross profit margin of CTP being more reasonable compared to that of LCM, which was too low.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

At 30 June 2012, the Group had bank balances of HK$352.6 million (31 December 2011: HK$500.8 million), excluding pledged bank deposits (in Renminbi and US dollars) for the purpose of US dollars borrowings, among of which 82.3% was held in Renminbi, 17.5% was held in US dollars and the remaining balance was held in Hong Kong dollars. The Group had net bank balances (total bank balances less bank borrowings) of HK$176.3 million (31 December 2011: HK$161.2 million). The Group intends to finance its working capital and capital expenditure plans from such bank balances.

The turnover period of inventory, trade receivables, notes receivable and trade payables of the Group are presented below:

	For the six months ended 30 June 2012 Days	For the year ended 31 December 2011 Days
Inventory turnover period	**87**	63
Trade receivables period	**25**	12
Notes receivable period	**64**	41
Trade payables period	**132**	88

The increase in inventory turnover period was because our customers asked for deferral of shipment and about 34% of the inventory as at 30 June 2012 were finished products. The increase in the turnover period of trade receivables was because the Group granted longer credit terms since June of this year upon the request of some renowned customers, resulted in the increase in trade receivables. The trade receivables is expected to increase more in the second half of 2012. In the fourth quarter of 2011, the purchase volume of the Group was large which resulted in a larger trade payables balance at the beginning of this year, and the purchase amount in 1H-2012 was not large, as a result, the trade payables turnover period increased significantly.

As at 30 June 2012, the current ratio, calculated as current assets over current liabilities, was 1.5 times (31 December 2011: 1.5 times).

Other than entering into non-deliverable foreign exchange forward contracts to eliminate the foreign exchange exposures in US dollars denominated bank borrowings, the management of the Group considered that it was not necessary to use any other financial instrument for hedging purpose or adopt any particular hedging policy.

As at 30 June 2012, the Company had 1,704,999,000 ordinary shares of HK$0.10 each in issue.

GEARING RATIO

As at 30 June 2012, the total assets value of the Group was HK$3,489.9 million (31 December 2011: HK$3,841.5 million) and the bank borrowings was HK$438.4 million (31 December 2011: HK$511.5 million). The gearing ratio of the Group, calculated as total bank borrowings over total assets, was 12.6% (31 December 2011: 13.3%).

EMPLOYEES

As at 30 June 2012, the Group had 4,606 (31 December 2011: 4,979) employees. The Group operates a mandatory provident fund retirement benefits scheme for all its employees in Hong Kong, and provides its PRC employees with welfare schemes as required by the applicable laws and regulations of the PRC. The Group also offers discretionary bonuses to its employees by reference to individual performance and the performance of the Group.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the human resources department and seeks to provide remuneration packages on the basis of their merit, qualifications and competence of the employees.

The emoluments of the directors ("Directors") and senior management of the Company will be reviewed by the remuneration committee of the Company, having regard to factors including the Group's operating results, responsibilities of the Directors and senior management and comparable market statistics.

The Company has adopted a pre-listing share option scheme to recognise and reward the contribution of certain Directors and employees of the Group to the growth and development of the Group. The Group has also adopted another share option scheme, the primary purpose of which is to motivate the eligible persons referred to in the scheme, which includes employees of the Group, to optimise their future contributions to the Group and to reward them for their efforts.

CHARGES ON GROUP ASSETS

As at 30 June 2012, the Group has pledged buildings and land use rights having a carrying value of approximately HK$103.3 million and HK$28.1 million respectively, together with bank deposits of HK$262.2 million and notes receivable of HK$98.7 million to secure general banking facilities granted to the Group.

FOREIGN EXCHANGE EXPOSURE

Most of the sales of the Group are denominated in Renminbi and most of the purchases of inventories are denominated in US dollars. With the introduction of a more elastic exchange rate regime for Renminbi, the Renminbi exchange rate movements might become more volatile, creating an uncertainty effect on the Group's business. Furthermore, certain trade receivables, trade payables and bank balances are denominated in US dollars, therefore exposing the Group to US dollars currency risk. The Group does not have a foreign currency hedging policy but will continue to monitor any further changes in Renminbi's exchange rate and would proactively take measures to minimise any adverse impact that fluctuations of exchange rates might have on the Group.

FUTURE PLANS FOR MATERIAL INVESTMENT

As at 30 June 2012, the Group did not have any other material investment plans.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES

During 1H-2012, the Group did not have any material acquisition or disposal of subsidiaries or associated companies.

CONTINGENT LIABILITIES

As at 30 June 2012, the Group did not have any material contingent liabilities.

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	NOTES	Six months ended 30 June 2012 HK$'000 (unaudited)	2011 HK$'000 (unaudited)
Revenue	3	**1,316,727**	1,265,378
Cost of sales		**(1,185,308)**	(1,142,168)
Gross profit		**131,419**	123,210
Other income	5	**29,630**	24,571
Other gains and losses	7	**(20,652)**	25,905
Research and development expenses		**(91,911)**	(76,326)
Selling and distribution costs		**(53,758)**	(47,821)
Administrative expenses		**(58,065)**	(64,038)
Finance costs		**(2,433)**	(3,497)
Loss before taxation		**(65,770)**	(17,996)
Tax credit (charge)	6	**2,494**	(2,810)
Loss for the period	7	**(63,276)**	(20,806)
Loss for the period attributable to:			
Owners of the Company		**(58,282)**	(18,748)
Non-controlling interests		**(4,994)**	(2,058)
		(63,276)	(20,806)
Loss per share (HK cents)	9		
Basic and diluted		**(3.4)**	(1.2)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Loss for the period	**(63,276)**	(20,806)
Other comprehensive (expense) income:		
Exchange difference arising on translation to presentation currency	**(10,204)**	35,571
Total comprehensive (expense) income for the period	**(73,480)**	14,765
Total comprehensive (expense) income attributable to:		
Owners of the Company	**(67,800)**	16,251
Non-controlling interest	**(5,680)**	(1,486)
	(73,480)	14,765

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2012

	NOTES	30 June 2012 HK$'000 (unaudited)	31 December 2011 HK$'000 (audited)
Non-current assets			
Investment properties	10	**281,637**	273,023
Property, plant and equipment	10	**708,196**	684,271
Land use rights		**96,163**	98,401
Goodwill	11	**7,321**	28,321
Intangible assets	10	**132,756**	180,432
Deferred tax assets	12	**20,663**	17,946
Available-for-sale investments		**16,470**	16,605
Deposits paid for property, plant and equipment		**5,522**	11,680
		1,268,728	1,310,679
Current assets			
Inventories		**519,444**	620,729
Properties under development for sales	13	**232,081**	206,772
Trade receivables	14	**256,733**	105,512
Notes receivable	14	**296,352**	631,521
Other receivables, deposits and prepayments		**301,780**	293,548
Pledged bank deposits		**262,190**	171,890
Bank balances and cash		**352,604**	500,817
		2,221,184	2,530,789
Current liabilities			
Trade payables	15	**569,346**	871,302
Other payables, deposits received and accruals		**424,654**	327,327
Bank borrowings	16	**438,449**	511,472
Tax payable		**2,385**	5,214
		1,434,834	1,715,315
Net current assets		**786,350**	815,474
		2,055,078	2,126,153

	NOTES	30 June 2012 HK$'000 (unaudited)	31 December 2011 HK$'000 (audited)
Capital and reserves			
Share capital	17	**170,500**	170,500
Reserves		**1,751,880**	1,815,966
Equity attributable to owners of the Company		**1,922,380**	1,986,466
Non-controlling interests		**82,744**	88,424
Total equity		**2,005,124**	2,074,890
Non-current liability			
Deferred tax liabilities	12	**49,954**	51,263
		2,055,078	2,126,153

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Attributable to owners of the Company											
	Share capital HK$'000	Share premium HK$'000	Statutory surplus reserve HK$'000 (Note a)	Other reserve HK$'000 (Note b)	Share option reserve HK$'000	Properties revaluation reserve HK$'000	Capital redemption reserve HK$'000	Translation reserve HK$'000	Accumulated profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2011 (audited)	156,962	543,914	27,599	97,091	25,144	73,739	-	168,937	697,679	1,791,065	28,025	1,819,090
Loss for the period	-	-	-	-	-	-	-	-	(18,748)	(18,748)	(2,058)	(20,806)
Exchange difference arising on translation to presentation currency recognised directly in equity	-	-	-	-	-	-	-	34,999	-	34,999	572	35,571
Total comprehensive income (expense) for the period	-	-	-	-	-	-	-	34,999	(18,748)	16,251	(1,486)	14,765
Issue of new shares due to exercise of share options	2,042	14,553	-	-	-	-	-	-	-	16,595	-	16,595
Issue of shares upon listing of Taiwan Depositary Receipts on the Taiwan Stock Exchange Corporation	13,750	207,132	-	-	-	-	-	-	-	220,882	-	220,882
Transaction costs attributable to issue of new shares	-	(7,708)	-	-	-	-	-	-	-	(7,708)	-	(7,708)
Repurchase of shares	(1,659)	(11,536)	-	-	-	-	1,659	-	(1,659)	(13,195)	-	(13,195)
Transfer upon exercise of share options	-	7,683	-	-	(7,683)	-	-	-	-	-	-	-
Recognition of equity settled share based payments	-	-	-	-	4,051	-	-	-	-	4,051	-	4,051
Dividends paid	-	-	-	-	-	-	-	-	(51,733)	(51,733)	-	(51,733)
At 30 June 2011 (unaudited)	171,095	754,038	27,599	97,091	21,512	73,739	1,659	203,936	625,539	1,976,208	26,539	2,002,747

	Attributable to owners of the Company											
	Share capital HK$'000	Share premium HK$'000	Statutory surplus reserve HK$'000 (Note a)	Other reserve HK$'000 (Note b)	Share option reserve HK$'000	Properties revaluation reserve HK$'000	Capital redemption reserve HK$'000	Translation reserve HK$'000	Accumulated profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2012 (audited)	170,500	749,467	27,599	97,091	27,548	73,739	2,282	237,102	601,138	1,986,466	88,424	2,074,890
Loss for the period	-	-	-	-	-	-	-	-	(58,282)	(58,282)	(4,994)	(63,276)
Exchange difference arising on translation to presentation currency recognised directly in equity	-	-	-	-	-	-	-	(9,518)	-	(9,518)	(686)	(10,204)
Total comprehensive expense for the period	-	-	-	-	-	-	-	(9,518)	(58,282)	(67,800)	(5,680)	(73,480)
Recognition of equity settled share based payments	-	-	-	-	3,714	-	-	-	-	3,714	-	3,714
At 30 June 2012 (unaudited)	170,500	749,467	27,599	97,091	31,262	73,739	2,282	227,584	542,856	1,922,380	82,744	2,005,124

Notes:

(a) As stipulated by the relevant People's Republic of China ("PRC") laws and regulations, before distribution of the net profit each year, the subsidiaries established in the PRC shall set aside 10% of their net profit after taxation to the statutory surplus reserve. The reserve fund can only be used, upon approval by the board of directors of the relevant subsidiaries and by the relevant authority, to offset accumulated losses or increase capital.

(b) Other reserve is arisen from a reorganisation to rationalise the structure of the Group in preparation for listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
	(unaudited)	(unaudited)
NET CASH FROM OPERATING ACTIVITIES	**168,457**	628
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(64,469)**	(92,605)
Proceeds on disposal of property, plant and equipment	**206**	93
Development costs paid	**(80,900)**	(83,742)
Deposits paid for purchase of property, plant and equipment	**(5,522)**	–
Placement of pledged bank deposits	**(262,456)**	(44,583)
Withdrawal of pledged bank deposits	**171,890**	349,035
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(241,251)**	128,198
FINANCING ACTIVITIES		
Issue of shares	**–**	237,477
Transaction costs attributable to issue of new shares	**–**	(7,708)
New bank borrowings raised	**219,582**	127,175
Repayments of bank borrowings	**(291,815)**	(417,203)
Dividends paid	**–**	(51,733)
Interest paid	**(2,433)**	(3,497)
Repurchase of shares	**–**	(13,195)
NET CASH USED IN FINANCING ACTIVITIES	**(74,666)**	(128,684)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(147,460)**	142
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**500,817**	534,522
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(753)**	9,302
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH	**352,604**	543,966

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2012

1. GENERAL INFORMATION AND BASIS OF PREPARATION

The Company was incorporated in Bermuda as an exempted company under the Companies Act 1981 of Bermuda (as amended) with limited liability. Its ultimate and immediate holding company is Info Dynasty Group Limited, a company incorporated in the British Virgin Islands.

The company is an investment holding company. The principal activities of its subsidiaries are manufacturing, design and development and sale of display modules, handsets and solutions, and wireless communication modules and property development in the People's Republic of China (the "PRC").

The functional currency of the Company is Renminbi. The condensed consolidated financial statements are presented in Hong Kong dollar, as the directors consider that such presentation is more appropriate for a company listed in The Stock Exchange of Hong Kong Limited and for the convenience of the shareholders.

The condensed consolidated financial statements of the Group 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 International Accounting Standard ("IAS") 34 "Interim Financial Reporting".

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties, which are measured at fair values.

Except as described below, the accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2011.

In the current period, the Group has applied, for the first time, the following amendments to International Financial Reporting Standards ("IFRSs") issued by International Accounting Standards Board ("IASB") that are effective for the Group's financial year beginning on 1 January 2012.

IAS 12 (Amendments)	Deferred tax – Recovery of underlying assets
IFRS 7 (Amendments)	Financial instruments disclosures – Transfers of financial assets

Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets

Under the amendments to IAS 12 "Recovery of underlying assets", investment properties that are measured using the fair value model in accordance with IAS 40 "Investment Properties" are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group measures its investment properties using the fair value model. As a result of the application of the amendments to IAS 12, the Directors reviewed the Group's investment property portfolios and concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodies in the investment properties over time, and that the presumption set out in the amendments to IAS 12 is rebutted. Previously, the Group recognised deferred taxes on changes in fair value of investment properties on the basis that the entire carrying amounts of the properties were recovered through use. As a result, the application of the amendments to IAS 12 in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

The application of other amendment to IFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

3. REVENUE

Revenue represents the amounts received and receivable for goods sold net of discounts and sales related taxes.

4. SEGMENT INFORMATION

Segment information is presented based on internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, being the executive directors, for the purpose of allocating resources to segments and assessing their performance.

The Group is currently organised into four reportable and operating segments – sale of handsets and solutions, sale of display modules, sale of wireless communication modules and property development.

As disclosed in the consolidated financial statements for the year ended 31 December 2011, property development operating activity has become substantial to the Group, therefore it is reported as a new reportable and operating segment. Figures in the segmental information for six months ended 30 June 2011 have been restated for comparative purposes only.

Six months ended 30 June 2012

	Sale of handsets and solutions HK$'000	Sale of display modules HK$'000	Sale of wireless communication modules HK$'000	Property development HK$'000	Segment total HK$'000	Elimination HK$'000	Consolidated HK$'000
Revenue							
External sales	1,037,257	38,701	240,769	-	1,316,727	-	1,316,727
Inter-segment sales	-	92,804	-	-	92,804	(92,804)	-
Total	1,037,257	131,505	240,769	-	1,409,531	(92,804)	1,316,727
Segment (loss) profit	(79,556)	(2,265)	9,706	(3,414)	(75,529)	-	(75,529)
Other income							13,549
Corporate expenses							(12,262)
Gain from changes in fair value of investment properties							10,905
Finance costs							(2,433)
Loss before taxation							(65,770)

Six months ended 30 June 2011 – restated

	Sale of handsets and solutions HK$'000	Sale of display modules HK$'000	Sale of wireless communication modules HK$'000	Property development HK$'000	Segment total HK$'000	Elimination HK$'000	Consolidated HK$'000
Revenue							
External sales	934,024	58,715	272,639	-	1,265,378	-	1,265,378
Inter-segment sales	-	17,643	-	-	17,643	(17,643)	-
Total	934,024	76,358	272,639	-	1,283,021	(17,643)	1,265,378
Segment (loss) profit	(18,836)	(15,002)	7,299	(1,742)	(28,281)	-	(28,281)
Other income							15,560
Corporate expenses							(9,977)
Gain from changes in fair value of investment properties							8,199
Finance costs							(3,497)
Loss before taxation							(17,996)

Inter-segment sales are charged at mutually agreed terms.

Segment result represents the financial result by each segment without allocation of rental income, interest income, other income, corporate expenses, gain from changes in fair value of investment properties, finance costs and taxation.

The following is an analysis of the Group's assets by reportable and operating segments:

	30 June 2012 HK$'000	31 December 2011 HK$'000
Sale of handsets and solutions	**985,340**	1,795,330
Sale of display modules	**159,206**	359,119
Sale of wireless communication modules	**596,818**	378,461
Property development	**241,494**	255,162
Total segment assets	**1,982,858**	2,788,072

For the purposes of monitoring segment performances and allocating resources between segments, all assets are allocated to reportable and operating segments other than investment properties, certain property, plant and equipment, pledged bank deposits, bank balances and cash, deposits paid for property, plant and equipment, available-for-sale investments, deferred tax assets and certain other receivables, deposits and prepayment. Assets used jointly by reportable and operating segments are allocated on the basis of the revenues earned by individual operating segments.

5. OTHER INCOME

	Six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
Refund of Value Added Tax ("VAT") (Note 1)	**10,270**	5,728
Government grants (Note 2)	**2,500**	3,283
Interest income earned on bank balances	**3,656**	7,610
Rental income (Less: outgoings of HK$346,000 (2011: HK$331,000))	**9,150**	7,848
Repairs and maintenance income	**3,978**	–
Others	**76**	102
	29,630	24,571

Notes:

(1) Shanghai Simcom Limited, Shanghai Speedcom Technology Limited and Shanghai Simcom Wireless Solutions Limited, wholly-owned subsidiaries of the Company, are engaged in the business of distribution of self-developed and produced software. Under the current PRC tax regulation, it is entitled to a refund of VAT paid for sales of self-developed software in the PRC.

(2) The amount includes HK$1,902,000 (1 January 2011 to 30 June 2011: HK$3,283,000) unconditional government grants, granted to encourage for the Group's research and developments activities in the PRC.

During the six months ended 30 June 2012, the Group received government grants of HK$8,577,000 (1 January 2011 to 30 June 2011: HK$12,095,000) towards the cost of development on wireless communication modules, handset and modules in Shanghai and Shenyang. The amounts are transferred to other income to match actual expenditure used in research and development activities and HK$598,000 (1 January 2011 to 30 June 2011: nil) was recognised in the profit or loss during the period.

As at 30 June 2012, an amount of HK$54,628,000 (31 December 2011: HK$47,028,000) remains to be unamortised and included in other payables.

6. TAX CREDIT (CHARGE)

	Six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
Tax credit (charge) comprises:		
PRC Enterprise Income Tax		
– current period	**(1,294)**	(2,687)
– overprovision in prior periods	**–**	3,570
	(1,294)	883
Deferred tax credit (charge) (note 12)	**3,788**	(3,693)
	2,494	(2,810)

No provision for Hong Kong Profits Tax has been made for both periods as the Company and its subsidiaries have no assessable profits arising in Hong Kong.

PRC Enterprise Income Tax is calculated at the rates prevailing in the relevant districts of the PRC taking relevant tax incentives into account. The estimated average annual tax rate used for PRC Enterprise Income Tax is 15% for six months ended 30 June 2012 (1 January 2011 to 30 June 2011: 15%).

7. LOSS FOR THE PERIOD

	Six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
Loss for the period is arrived at after charging (crediting):		
Amortisation of intangible assets (included in cost of sales)	**129,959**	75,677
Less: Amount capitalised in development costs classified as intangible assets	**(553)**	–
	129,406	75,677
Amortisation of land use rights	**1,426**	1,073
Depreciation of property, plant and equipment	**49,794**	28,765
Less: Amount capitalised in development costs classified as intangible assets	**(1,545)**	(1,470)
	48,249	27,295
Staff costs including directors' emoluments	**185,554**	169,071
Share-based payments	**3,714**	4,051
Less: Amount capitalised in development costs classified as intangible assets	**(64,584)**	(67,799)
	124,684	105,323
Operating lease rentals in respect of land and buildings	**4,396**	4,413
Less: Amount capitalised in development costs classified as intangible assets	**(934)**	(865)
	3,462	3,548
Write-down of inventories (included in cost of sales)	**10,860**	3,511
Loss on disposal of property, plant and equipment	**35**	24
Net foreign exchange loss (gain)	**10,522**	(8,023)
Gain from changes in fair value of investment properties	**(10,905)**	(8,199)
Reversal of allowance for bad and doubtful debts	**–**	(9,683)
Impairment loss recognised in respect of goodwill	**21,000**	–

8. DIVIDENDS

	Six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
Final dividend paid for the year ended 31 December 2010 of HK3.0 cents	**–**	51,733

The directors do not recommend the payment of an interim dividend for six months ended 30 June 2012.

9. LOSS PER SHARE

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

	Six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
Loss		
Loss for the purposes of basic and diluted loss per share (loss for the period attributable to the owners of the Company)	**(58,282)**	(18,748)
	'000	'000
Number of shares		
Number of ordinary shares in issue (30 June 2011: weighted average number of ordinary shares) for the purpose of basic loss per share	**1,704,999**	1,577,784

The computation of diluted loss per share for the six months ended 30 June 2012 and 2011 does not assume the exercise of the Company's share options as it would reduce loss per share.

10. MOVEMENTS IN INVESTMENT PROPERTIES, PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

The Group's investment properties were fair valued by the Directors. The valuation was arrived at by reference to the discount cash flow projections based on estimates of future cash flows, supported by the terms of existing lease and reasonable and supportable assumptions that represent what knowledgeable willing parties would assume about rental income for future leases in the light of current conditions, using discount rates that reflect current market assessments of the uncertainty in the amount and timing of cash flows.

Based on the assessment by the Directors, the fair value of investment properties as at 30 June 2012 is HK$281,637,000 (31 December 2011: HK$273,023,000) and fair value changes of HK$10,905,000 have been recognised directly in profit or loss for the six months ended 30 June 2012 (1 January 2011 to 30 June 2011: HK$8,199,000).

During the period, additions to the Group's property, plant and equipment amounted to HK$79,210,000 (1 January 2011 to 30 June 2011: HK$102,195,000) including addition to construction in progress of HK$50,238,000 (1 January 2011 to 30 June 2011: HK$49,368,000) for new manufacturing plant in the PRC.

During the period, additions to the Group's intangible assets amounted to HK$82,998,000 (1 January 2011 to 30 June 2011: HK$85,212,000) including addition to development costs of HK$80,183,000 (1 January 2011 to 30 June 2011: HK$83,167,000) for development projects on the products.

11. GOODWILL

For the purpose of impairment testing, goodwill have been allocated to the cash generating unit ("CGU") of sale of handsets and solutions business. During the six months ended 30 June 2012, the Group failed in achieving the previous budgeted results of sale of handsets and solutions due to unsatisfying income generated and more costs incurred. In view of this, management re-estimated the cash flow projections of the CGU, taking into account the actual performance in current period as well as the future prospect from the CGU. The recoverable amount of the CGU has been determined based on a value in use calculation. The calculation uses cash flow projections based on financial budgets approved by management covering a 5-years period and discount rate of 17.5% (31 December 2011: 16.83%). The cash flows beyond the 5-years period are extrapolated having a steady 3% (31 December 2011: 3%) growth rate. The growth rate is based on the relevant industry growth forecasts and average long-term growth rate for the relevant industry.

As a result of the re-estimation, the recoverable amount of the CGU is estimated to be less than the carrying amounts (before impairment) of the CGU and an impairment loss of goodwill HK$21,000,000 (31 December 2011: nil) is recognised to profit or loss during the six months ended 30 June 2012.

12. DEFERRED TAX

The followings are the major deferred tax (liabilities) assets recognised by the Group and the movement thereon during the current period and prior year:

	Development cost capitalised HK$'000	Write-down of inventories and trade receivables HK$'000	Revaluation of investment properties HK$'000	Intangible assets HK$'000	Total HK$'000
At 1 January 2011 (audited)	(9,555)	9,592	(30,325)	(3,268)	(33,556)
Exchange differences	(453)	28	(636)	–	(1,061)
Charge to profit or loss (note 6)	(1,643)	–	(2,050)	–	(3,693)
At 30 June 2011 (unaudited)	(11,651)	9,620	(33,011)	(3,268)	(38,310)
Exchange differences	(12)	372	(833)	–	(473)
(Charge) credit to profit or loss	(113)	7,954	(2,375)	–	5,466
At 31 December 2011 (audited)	(11,776)	17,946	(36,219)	(3,268)	(33,317)
Exchange differences	69	(146)	315	–	238
Credit (charge) to profit or loss (note 6)	3,651	2,863	(2,726)	–	3,788
At 30 June 2012 (unaudited)	(8,056)	20,663	(38,630)	(3,268)	(29,291)

The following is the analysis of the deferred tax balances for financial reporting purposes:

	30 June 2012 HK$'000	31 December 2011 HK$'000
Deferred tax assets	**20,663**	17,946
Deferred tax liabilities	**(49,954)**	(51,263)
	(29,291)	(33,317)

13. PROPERTIES UNDER DEVELOPMENT FOR SALES

The properties under development for sales of the Group are situated in the PRC and located on parcels of land with land use rights under medium-term leases. During the six months ended 30 June 2012, the Group obtained the pre-sale certificates for such properties. As at 30 June 2012, the Group received deposits of HK$63,216,000 (31 December 2011: nil) on pre-sales of properties and included in other payables, deposits received and accruals. In the opinion of the Directors, the construction of the properties under development for sales are expected to be completed within 1 year.

14. TRADE RECEIVABLES AND NOTES RECEIVABLE

The normal credit period taken on sales of goods is 0 to 120 days. The following is an aged analysis of trade receivables, notes receivable presented based on the invoice date at the end of the reporting period:

	30 June 2012 HK$'000	31 December 2011 HK$'000
0-30 days	**142,418**	83,370
31-60 days	**64,368**	9,238
61-90 days	**11,880**	5,827
91-180 days	**24,602**	6,434
Over 180 days	**25,704**	12,982
	268,972	117,851
Less: Accumulated allowances	**(12,239)**	(12,339)
Trade receivables	**256,733**	105,512
0-30 days	**265,634**	609,155
31-60 days	**6,263**	3,783
61-90 days	**6,921**	6,599
91-180 days	**17,534**	11,984
Notes receivable (Note)	**296,352**	631,521

Note: Notes receivable represent the promissory notes issued by banks received from the customers.

15. TRADE PAYABLES

The normal credit period taken for trade purchases is 30 to 60 days. The following is an aged analysis of trade payables at the end of the reporting period presented based on the invoice date:

	30 June 2012 HK$'000	31 December 2011 HK$'000
0-30 days	**494,403**	651,230
31-60 days	**53,580**	184,506
61-90 days	**4,720**	2,102
Over 90 days	**16,643**	33,464
	569,346	871,302

16. BANK BORROWINGS

During the period, the Group repaid short-term bank borrowings of HK$291,815,000 (1 January 2011 to 30 June 2011: HK$417,203,000) and obtained new short-term bank borrowings with total amount of HK$219,582,000 (1 January 2011 to 30 June 2011: HK$127,175,000). The borrowings bear interest at fixed rates ranging from 1.3% to 3.3% per annum (31 December 2011: 1.3% to 3.3% per annum) and are repayable within one year. The proceeds were used to meet short-term working capital needs.

17. SHARE CAPITAL

	Number of shares '000	Share capital HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
At 1 January 2012 and 30 June 2012	3,000,000	300,000
Issued:		
At 1 January 2012 and 30 June 2012	1,704,999	170,500

18. OPERATING LEASE ARRANGEMENT

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30 June 2012 HK$'000	31 December 2011 HK$'000
Within one year	**3,763**	4,804
In the second to fifth year inclusive	**1,286**	2,968
	5,049	7,772

The Group as lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	30 June 2012 HK$'000	31 December 2011 HK$'000
Within one year	**19,084**	16,450
In the second to fifth year inclusive	**39,524**	42,251
After five years	**9,122**	6,588
	67,730	65,289

19. COMMITMENTS

	30 June 2012 HK$'000	31 December 2011 HK$'000
Expenditure contracted for but not provided in the condensed consolidated financial statements in respect of:		
– properties under development for sales	**91,232**	30,163

20. RELATED PARTY TRANSACTIONS

The remuneration of key management during the period was as follows:

	Six months ended 30 June 2012 HK$'000	2011 HK$'000
Short term benefits	**1,977**	1,991
Post-employment benefits	**72**	70
Share based payments	**867**	1,094
	2,916	3,155

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITION IN SHARES

At 30 June 2012, the interests and short positions of the Directors and chief executives 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 Future Ordinance (CAP 571, Laws of Hong Kong) ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

(a) Interests in the shares of the Company and the shares of associated corporations of the Company

Name of director	Name of corporation	Nature of interest	Total number of ordinary shares	Approximate percentage of interest in the corporation (note 3)
Mr Wong Cho Tung	Company	Corporate interest (Note 1)	772,500,000	45.31%
	Company	Personal interest	3,098,000	0.18%
	Subtotal		775,598,000	45.49%
	Info Dynasty Group Limited ("Info Dynasty")	Personal interest	1,000	49.95%
Ms Yeung Man Ying	Company	Corporate interest (Note 2)	703,675,000	41.27%
	Company	Personal interest	3,418,000	0.20%
	Subtotal		707,093,000	41.47%
	Info Dynasty	Personal interest	1,000	49.95%
Mr Wong Hei, Simon	Info Dynasty	Personal interest	1	0.05%
Mr Zhang Jianping	Company	Personal interest	4,864,000	0.29%

Notes:

1. Mr Wong Cho Tung ("Mr Wong") controls more than one-third of the voting power of Info Dynasty. Mr Wong is therefore deemed to be interested in all the 703,675,000 shares held by Info Dynasty in the Company by virtue of Part XV of the SFO. Both Intellipower Investments Limited ("Intellipower") and Simcom Limited ("Simcom (BVI)") are wholly-owned by Mr Wong and he is therefore deemed to be interested in all the 48,825,000 shares and 20,000,000 shares held by Intellipower and Simcom (BVI) respectively in the Company by virtue of Part XV of the SFO respectively.

2. Ms Yeung Man Ying ("Mrs Wong"), the spouse of Mr Wong, controls more than one-third of the voting power of Info Dynasty. Mrs Wong is therefore deemed to be interested in all the 703,675,000 shares held by Info Dynasty by virtue of Part XV of the SFO.

3. Calculation of percentage of interest in the Company is based on the issued share capital of 1,704,999,000 shares of the Company as at 30 June 2012.

(b) Interests in the underlying shares of the Company

Please see the section headed "Share Options" on page 38 to 39 of this report for information of the interests of the Directors and chief executive of the Company in the underlying shares of the Company as at 30 June 2012.

Save as disclosed above, as at 30 June 2012, none of the Directors or chief executive of the Company or their associates had any interests or short positions in the shares, whether beneficial or non-beneficial, in the shares, underlying shares and debentures of the Company or any of its associated corporations as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

At 30 June 2012, the interests and short positions of other persons (other than a Directors or chief executives of the Company) in the shares, underlying shares and debentures of the Company or any of its associated corporation as recorded in the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO were as follows:

Name of shareholder	Nature of interest	Total number of ordinary shares	Approximate percentage of interest in the Company (Note 1)
Info Dynasty (note 2)	Personal interest	703,675,000	41.27%

1. Calculation of percentage of interest in the Company is based on the issued share capital of 1,704,999,000 shares of the Company as at 30 June 2012.

2. The relationship between Info Dynasty and Mr Wong and the relationship between Info Dynasty and Mrs Wong is disclosed under the paragraph headed " Directors and Chief Executives' Interests and Short Position in Shares" above.

Save as disclosed above, as at 30 June 2012, there is no other person (other than a Director of chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company which are required to be recorded in the register required to be kept by the Company under section 336 of the SFO.

SHARE OPTIONS

The Company granted share options under the pre-listing share option scheme adopted by the Company on 30 May 2005 ("Pre-IPO Options") and under a share option scheme ("Post-IPO Options") adopted on 30 May 2005.

The details of the options under Pre-IPO Options and Post-IPO Options granted to certain Directors and employees of the Group and movements in such holdings were illustrated below:

Category of participants	Name of scheme	Date of grant	Outstanding at 1 January 2012	Exercised during the period	Lapsed during the period	Outstanding at 30 June 2012
Directors						
Mr Zhang Jianping	Pre-IPO	30.5.2005	1,500,000	-	-	1,500,000
	Post-IPO	28.3.2008	800,000	-	-	800,000
	Post-IPO	3.9.2009	7,200,000	-	-	7,200,000
Ms Tang Rongrong	Pre-IPO	30.5.2005	-	-	-	-
	Post-IPO	28.3.2008	800,000	-	-	800,000
	Post-IPO	3.9.2009	3,000,000	-	-	3,000,000
Mr Chan Tat Wing Richard	Pre-IPO	30.5.2005	500,000	-	-	500,000
	Post-IPO	28.3.2008	1,600,000	-	-	1,600,000
	Post-IPO	3.9.2009	3,000,000	-	-	3,000,000
			18,400,000	-	-	18,400,000
Employees of the Group	Pre-IPO	30.5.2005	1,723,000	-	-	1,723,000
	Post-IPO	12.5.2006	4,772,500	-	-	4,772,500
	Post-IPO	13.11.2007	5,092,000	-	-	5,092,000
	Post-IPO	28.3.2008	20,785,000	-	(1,126,000)	19,659,000
	Post-IPO	3.9.2009	55,775,500	-	(3,920,500)	51,855,000
			106,548,000	-	(5,046,500)	101,501,500

Notes:

1. In relation to each grantee of the options granted under the Pre-IPO Options, 25% of the options will vest during the period from 1 April 2006 to 31 December 2006 and in each of the three calendar years from 1 January 2007 to 31 December 2009. The exercise price per share is HK$1.02 and the exercise period is 1 April 2006 to 29 May 2015.

2. In relation to each grantee of the options granted on 12 May 2006 under Post-IPO Options, 25% of the options will vest in each of the four calendar years from 1 January 2007. The exercise price per share is HK$3.675 and the exercise period is 1 January 2007 to 11 May 2016.

3. In relation to each grantee of the options granted on 13 November 2007 under Post-IPO Options, 25% of the options will vest in each of the four calendar years from 1 April 2008. The exercise price per share is HK$1.64 and the exercise period is 1 April 2008 to 12 November 2017.

4. In relation to each grantee of the options granted on 28 March 2008 under Post-IPO Options, 25% of the options will vest in each of the four calendar years from 15 April 2009. The exercise price per share is HK$0.81 and the exercise period is 15 April 2009 to 27 March 2018.

5. In relation to each grantee of the options granted on 3 September 2009 under Post-IPO Options, 25% of the options will vest in each of the four calendar years from 15 April 2010. The exercise price per share is HK$0.79 and the exercise period is 15 April 2010 to 2 September 2019.

Other than as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangements that enable the Directors or the chief executive of the Company to acquire benefits by means of acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and save as disclosed in this report, none of the Directors, the chief executive, their spouses or children under the age of 18, had any right to subscribe for securities of the Company, or had exercise any such right during the period.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the reporting period, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the reporting period.

CORPORATE GOVERNANCE CODE

Save as mentioned below, the Company has complied with the code provisions laid down in (i) the former Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules during the period from 1 January 2012 to 31 March 2012 and (ii) the revised and renamed Corporate Governance Code as set out in Appendix 14 to the Listing Rules (both hereinafter referred to as "Corporate Governance Code") for the period from 1 April 2012 to 30 June 2012.

According to the code provision E.1.2 of the Corporate Governance Code, the chairman of the Board shall attend the annual general meeting of the Company and arrange for the chairmen of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting.

At the annual general meeting of the Company held on 18 May 2012 ("2012 AGM"), Ms Yeung Man Ying, the chairman of the Board, was unable to attend due to unexpected business engagement. Mr Chan Tat Wing, Richard, an executive Director and the chief finance officer of the Group, chaired the 2012 AGM on behalf of the chairman of the Board pursuant to the bye-laws of the Company and was available to answer questions. Mr Liu Hing Hung, an independent non-executive Director and the chairman of the Remuneration Committee and the Audit Committee, was also available at the 2012 AGM to answer questions from shareholders of the Company.

According to the code provision A6.7 of the Corporate Governance Code, the independent non-executive Directors should also attend general meetings of the Company.

At the 2012 AGM, Mr Xie Linzhen and Mr Dong Yunting, each an independent non-executive Director, were unable to attend due to unexpected business engagement.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code for securities transactions. All directors of the Company have confirmed, following specific enquiry by the Company with all the Directors, that they have fully complied with the required standard as set out in the Model Code for the period under review.

AUDIT COMMITTEE

The audit committee of the Company ("Audit Committee") has reviewed with management the accounting principles and practice adopted by the Group and reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2012. In addition, the condensed consolidated financial statements of the Group for the six months ended 30 June 2012 have been reviewed by our auditor, Messrs. Deloitte Touche Tohmatsu, and an unqualified review report was issued. The Audit Committee comprises the three independent non-executive Directors.

CORPORATION INFORMATION

BOARD OF DIRECTORS

Executive Directors
Ms YEUNG Man Ying *(Chairman)*
Mr WONG Cho Tung
Mr ZHANG Jianping
Mr WONG Hei, Simon
Ms TANG Rongrong
Mr CHAN Tat Wing, Richard

Independent non-executive Directors
Mr LIU Hing Hung
Mr XIE Linzhen
Mr DONG Yunting

AUDIT COMMITTEE

Mr LIU Hing Hung *(Chairman)*
Mr XIE Linzhen
Mr DONG Yunting

REMUNERATION COMMITTEE

Mr LUI Hing Hung *(Chairman)*
Mr XIE Linzhen
Mr DONG Yunting

COMPANY SECRETARY

Ms WONG Tik

AUDITORS

Deloitte Touche Tohmatsu

LEGAL ADVISER AS TO HONG KONG LAW

LEUNG & LAU, Solicitors

PRINCIPAL BANKERS

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Bank of Communications
Shanghai Pudong Development Bank

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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STOCK CODE

2000