

## Notes to the Financial Statements

*For the year ended 31 December 2004*

### 1. GENERAL

The Company was incorporated in the Cayman Islands. The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 30 April 2004.

The Group is principally engaged in the provision of outsourcing software development services and technical support services.

### 2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new and revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs") (hereinafter collectively referred to as the "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in future as to how the results and financial position are prepared and presented.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below.

#### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intra-company transactions and balances within the Group have been eliminated on consolidation.

## Notes to the Financial Statements

For the year ended 31 December 2004

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Revenue recognition

Revenue from provision of outsourcing software development services and technical support services is recognised when persuasive evidence of an arrangement exists, the fee is fixed or determinable, collection is reasonably assured, and in the period in which the services have been delivered.

Government subsidies are recognised as income when the Group's rights to receive the subsidy have been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

#### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Office equipment	18%
Motor vehicles	18%
Leasehold improvements	Over the terms of the leases

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

#### Investment in a subsidiary

Investment in a subsidiary is included in the Company's balance sheet at cost, less any identified impairment loss.

## Notes to the Financial Statements

*For the year ended 31 December 2004*

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

#### **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable and deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

## Notes to the Financial Statements

For the year ended 31 December 2004

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Taxation (continued)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

#### Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are include in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

#### Retirement benefit costs

Payments to retirement benefit schemes are charged as an expense as they fall due.

#### Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the relevant lease terms.

## Notes to the Financial Statements

For the year ended 31 December 2004

### 4. TURNOVER

	2004 HK\$	2003 HK\$
Outsourcing software development services	173,785,803	110,738,626
Technical support services	12,727,253	8,538,853
Business tax and other government charges	(8,204,378)	(4,744,387)
	<b>178,308,678</b>	114,533,092

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS

#### (a) Business segments

The Group is principally engaged in the provision of outsourcing software development services and accordingly, no business segment analysis is presented.

#### (b) Geographical segment

The following table provides an analysis of the Group's sales by location of markets, irrespective of the origin of the services:

Year ended 31 December 2004

	People's Republic of China ("PRC") HK\$	Japan HK\$	Consolidated HK\$
External turnover	11,978,941	166,329,737	178,308,678
Cost of services	(7,959,189)	(83,618,874)	(91,578,063)
Segment results	4,019,752	82,710,863	86,730,615
Other operating income			5,496,761
Unallocated corporate expenses			(30,286,895)
Profit before taxation			61,940,481
Taxation			(6,523,936)
Profit before minority interest			55,416,545
Minority interest			(49,727)
Net profit for the year			<b>55,366,818</b>

## Notes to the Financial Statements

For the year ended 31 December 2004

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

## (b) Geographical segment (continued)

	PRC HK\$	Japan HK\$	Consolidated HK\$
Segment assets	106,797,842	48,710,779	155,508,621
Unallocated corporate assets			132,741,755
			288,250,376
Segment liabilities	16,087,233	8,403,759	24,490,992
Unallocated corporate liabilities			2,284,411
			26,775,403
Additions to property, plant and equipment	3,225,626	178,967	3,404,593
Depreciation	2,221,809	248,985	2,470,794
Allowance for (write-back of) bad and doubtful debts	179,775	(19,392)	160,383
Loss on disposal of property, plant and equipment	54,101	-	54,101

## Notes to the Financial Statements

For the year ended 31 December 2004

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

## (b) Geographical segment (continued)

Year ended 31 December 2003

	PRC HK\$	Japan HK\$	Consolidated HK\$
External turnover	8,040,547	106,492,545	114,533,092
Cost of services	(6,702,556)	(52,051,811)	(58,754,367)
Segment results	1,337,991	54,440,734	55,778,725
Other operating income			4,459,513
Unallocated corporate expenses			(22,162,223)
Profit before taxation			38,076,015
Taxation			(4,196,197)
Profit before minority interest			33,879,818
Minority interest			(28,124)
Net profit for the year			33,851,694

## Notes to the Financial Statements

For the year ended 31 December 2004

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

## (b) Geographical segment (continued)

	PRC HK\$	Japan HK\$	Consolidated HK\$
Segment assets	58,570,546	39,390,401	97,960,947
Unallocated corporate assets			34,689,284
			132,650,231
Segment liabilities	9,418,906	5,694,685	15,113,591
Unallocated corporate liabilities			1,701,232
			16,814,823
Additions to property, plant and equipment	3,054,519	263,522	3,318,041
Depreciation	1,442,952	260,095	1,703,047
(Write-back of) allowance for bad and doubtful debts	(657,538)	7,834	(649,704)
Loss on disposal of property, plant and equipment	818,948	-	818,948



## Notes to the Financial Statements

For the year ended 31 December 2004

**6. OTHER OPERATING INCOME**

	<b>2004</b>	2003
	<b>HK\$</b>	HK\$
Government subsidies	<b>2,346,485</b>	213,962
Net foreign exchange gain	<b>2,555,837</b>	3,208,793
Write-back of bad and doubtful debts	–	649,704
Interest income	<b>433,184</b>	238,002
Others	<b>161,255</b>	149,052
	<b>5,496,761</b>	4,459,513

**7. PROFIT BEFORE TAXATION**

Profit before taxation is arrived at after charging (crediting):

	<b>2004</b>	2003
	<b>HK\$</b>	HK\$
Auditors' remuneration	<b>800,000</b>	108,019
Depreciation of property, plant and equipment	<b>2,470,794</b>	1,703,047
Loss on disposal of property, plant and equipment	<b>54,101</b>	818,948
Operating lease rentals in respect of rented premises	<b>9,584,656</b>	7,708,975
Allowance for (write-back of) bad and doubtful debts	<b>160,383</b>	(649,704)
Staff costs:		
Director's emoluments	<b>6,301,730</b>	4,247,410
Other staff costs		
– Wages and salaries	<b>73,158,501</b>	50,769,755
– Retirement benefit schemes contributions	<b>4,040,171</b>	2,068,612
	<b>83,500,402</b>	57,085,777

## Notes to the Financial Statements

For the year ended 31 December 2004

### 8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	2004 HK\$	2003 HK\$
Fees:		
Executive directors	–	67,470
Non-executive directors	–	–
Other emoluments paid to executive directors:		
Salaries and other benefits	<b>3,470,291</b>	1,953,723
Discretionary bonus (Note)	<b>2,768,000</b>	2,184,914
Retirement benefit scheme contributions	<b>63,439</b>	41,303
	<b>6,301,730</b>	4,247,410

The emoluments of executive directors during the year are analysed as follows:

	2004 HK\$	2003 HK\$
Director A	<b>1,975,714</b>	2,298,445
Director B	<b>1,975,714</b>	1,730,498
Director C	<b>1,367,890</b>	150,997
Director D	<b>782,412</b>	–
Director E	<b>200,000</b>	67,470
	<b>6,301,730</b>	4,247,410

Note: The performance related incentive payments is determined as a percentage of the profit of the Group for the two years ended 31 December 2004.

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office and no directors waived or agreed to waive any emoluments.

## Notes to the Financial Statements

For the year ended 31 December 2004

**8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)****(b) Employees' emoluments**

The five highest paid employees included four directors for the year ended 31 December 2004 (2003: three), details of whose emoluments are set out in note 8 (a) above. The details of the emoluments of the remaining one (2003: two) highest paid individuals for the year were as follows:

	<b>2004</b>	2003
	<b>HK\$</b>	<b>HK\$</b>
Salaries and other benefits	<b>571,644</b>	1,206,326
Retirement benefit schemes contributions	<b>32,839</b>	8,229
	<b>604,483</b>	1,214,555

The aggregate emoluments of each of the highest paid individuals for both year was less than HK\$1,000,000.

**9. TAXATION**

	<b>2004</b>	2003
	<b>HK\$</b>	<b>HK\$</b>
PRC enterprise income tax		
– Current year	<b>6,425,933</b>	4,044,566
– Overprovision in prior years	<b>(150,944)</b>	–
Japan income tax	<b>248,947</b>	151,631
	<b>6,523,936</b>	4,196,197

## Notes to the Financial Statements

For the year ended 31 December 2004

### 9. TAXATION (CONTINUED)

Zhongxun Computer System (Beijing) Company Limited (“SinoCom Beijing”) has been recognised as a technologically advanced enterprise by relevant PRC government authorities since 26 September 1995. Pursuant to the Income Tax Laws, on 18 November 1996, the External Branch of State Tax Authority in Beijing granted approval to SinoCom Beijing to entitle the reduced state enterprise income tax rate of 15%. In addition, SinoCom Beijing is subject to a more favorable income tax rate of 10% as the annual export revenue of its software development business is more than 70% of SinoCom Beijing’s total annual income pursuant to relevant PRC regulations.

Zhongxun Software Inc. (Japan) (“SinoCom Japan”) is subject to a progressive statutory rate of 22% on the portion of taxable income not exceeding Yen8,000,000 (equivalent to approximately HK\$588,000) and 30% on the portion of taxable income in excess of Yen8,000,000 (equivalent to approximately HK\$588,000).

The charge for the year can be reconciled to the profit per the income statement as follows:

	<b>2004</b>	2003
	<b>HK\$</b>	HK\$
Accounting profit before taxation	<b>61,940,481</b>	38,076,015
Taxation at PRC income tax rate at 15%	<b>9,291,072</b>	5,711,402
Tax effect of expense that are not deductible in determining taxable profit	<b>474,526</b>	421,660
Effect of tax refund in respect of export revenue exceeding 70% of total income	<b>(3,212,966)</b>	(2,022,483)
Overprovision in prior years	<b>(150,944)</b>	–
Effect of different tax rates of subsidiary operating in other jurisdiction	<b>122,248</b>	85,618
Tax expenses	<b>6,523,936</b>	4,196,197

No provision for deferred taxation has been recognised in the financial statements as the amount involved is insignificant.

## Notes to the Financial Statements

For the year ended 31 December 2004

### 10. DIVIDEND

	<b>2004</b>	2003
	<b>HK\$</b>	HK\$
Final dividend proposed, HK10 cents per share (2003: HK5 cents per share)	<b>26,589,078</b>	9,970,539

The final dividend of HK10 cents (2003: HK5 cents) per share has been proposed by the directors and is subject to approval by the shareholders of the Company at the forthcoming annual general meeting of the Company.

### 11. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year of HK\$55,366,818 (2003: HK\$33,851,694) and the weighted average number of 244,091,990 (2003: 195,762,219) shares in issue during the year.

The computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price for shares for year ended 31 December 2004.

No diluted earnings per share for the year ended 31 December 2003 had been presented because the Company had no outstanding potential ordinary shares during that year or at that balance sheet date.

## Notes to the Financial Statements

For the year ended 31 December 2004

## 12. PROPERTY, PLANT AND EQUIPMENT

	Office equipment HK\$	Motor vehicles HK\$	Leasehold improvements HK\$	Total HK\$
<b>THE GROUP</b>				
<b>COST</b>				
At 1 January 2004	7,294,917	1,821,902	2,164,115	11,280,934
Exchange realignment	34,632	15,578	–	50,210
Additions	2,499,073	589,778	315,742	3,404,593
Disposals	(320,941)	–	(386,402)	(707,343)
At 31 December 2004	9,507,681	2,427,258	2,093,455	14,028,394
<b>DEPRECIATION</b>				
At 1 January 2004	2,475,373	946,865	636,035	4,058,273
Exchange realignment	21,823	9,256	–	31,079
Provided for the year	1,407,707	365,331	697,756	2,470,794
Eliminated on disposals	(258,868)	–	(386,402)	(645,270)
At 31 December 2004	3,646,035	1,321,452	947,389	5,914,876
<b>NET BOOK VALUES</b>				
At 31 December 2004	5,861,646	1,105,806	1,146,066	8,113,518
At 31 December 2003	4,819,544	875,037	1,528,080	7,222,661

## 13. INVESTMENT IN SUBSIDIARIES

## THE COMPANY

	2004 HK\$	2003 HK\$
Unlisted equity investments, at cost	<b>47,056,660</b>	47,056,660

## Notes to the Financial Statements

For the year ended 31 December 2004

## 13. INVESTMENT IN SUBSIDIARIES (CONTINUED)

Details of the Company's subsidiaries as at 31 December 2004 are as follows:

Name	Form of business structure	Place of establishment/ registration	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company		Principal activities
				Directly	Indirectly	
SinoCom Holdings (BVI) limited	Limited company	British Virgin Islands ("BVI")	Ordinary shares US\$3,624,502	100%	–	Investment holding
SinoCom Japan	Limited company	Japan	Ordinary shares JPY40,000,000	–	90.25%	Provision of outsourcing software development services
SinoCom Beijing	Wholly foreign-owned enterprise	PRC	Registered capital US\$6,040,800	–	100%	Provision of outsourcing software development and technical support services
SinoCom Ideas Holding Limited	Limited company	BVI	Ordinary shares US\$64,000	–	100%	Inactive
SinoCom Development Holding Limited	Limited company	BVI	Ordinary shares US\$423,217	–	100%	Inactive
SinoCom Innovative Technology Software Limited	Wholly foreign-owned enterprise	PRC	Registered capital US\$370,000	–	100%	Inactive

None of the subsidiaries had any debt securities outstanding during the year or at the end of the year.

## Notes to the Financial Statements

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### 14. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group normally allows credit period of 30 to 45 days to its trade customers.

The following is an aged analysis of trade debtors at the balance sheet date:

	The Group		The Company	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
0-30 days	<b>16,972,295</b>	13,140,035	–	–
31-60 days	<b>7,095,255</b>	8,698,730	–	–
61-90 days	<b>1,378,145</b>	1,608,348	–	–
91-180 days	<b>259,229</b>	43,774	–	–
181-365 days	<b>16,564</b>	–	–	–
Trade debtors	<b>25,721,488</b>	23,490,887	–	–
Other debtors	<b>4,138,028</b>	64,912	–	–
Deposits	<b>2,097,182</b>	2,407,934	–	–
Prepayments	<b>874,505</b>	6,925,151	<b>168,000</b>	4,641,899
	<b>32,831,203</b>	33,888,884	<b>168,000</b>	4,641,899

### 15. AMOUNTS DUE FROM/TO RELATED PARTIES

	2004 HK\$	2003 HK\$
<b>THE GROUP</b>		
Amount due from a shareholder	–	21,405
Amounts due to directors	<b>2,027,647</b>	–
Amount due to a shareholder	<b>43,596</b>	–
	<b>2,071,243</b>	–



## Notes to the Financial Statements

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### 15. AMOUNTS DUE FROM/TO RELATED PARTIES (CONTINUED)

	2004 HK\$	2003 HK\$
<b>THE COMPANY</b>		
Amount due to a shareholder	<b>65,000</b>	–

The amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

### 16. AMOUNTS DUE FROM/TO SUBSIDIARIES

#### THE COMPANY

The amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

### 17. CREDITORS, DEPOSITS RECEIVED AND ACCRUALS

The following is an aged analysis of trade creditors at the balance sheet date:

	The Group		The Company	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
0 – 30 days	<b>711,051</b>	457,792	–	–
31 – 60 days	<b>231,437</b>	12,852	–	–
61 – 90 days	<b>67,107</b>	3,804	–	–
Over 90 days	<b>51,317</b>	18,743	–	–
Trade creditors	<b>1,060,912</b>	493,191	–	–
Other creditors	<b>586,132</b>	6,670	–	–
Accruals	<b>17,683,956</b>	11,571,160	<b>189,049</b>	–
Deposits received	<b>303,986</b>	989,814	–	–
	<b>19,634,986</b>	13,060,835	<b>189,049</b>	–

## Notes to the Financial Statements

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### 18. SHARE CAPITAL

	Number of shares	HK\$
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1 January 2003, 31 December 2003 and 31 December 2004	1,000,000,000	100,000,000
Issued and fully paid:		
At 1 January 2003	176,450,000	17,645,000
Issue of shares (Note 1)	22,960,782	2,296,078
At 31 December 2003	199,410,782	19,941,078
Issue of shares (Note 2)	66,480,000	6,648,000
At 31 December 2004	265,890,782	26,589,078

Notes:

1. The Company allotted and issued 22,960,782 ordinary shares of HK\$0.10 each to Legend New-Tech Investment Limited at a consideration of HK\$24,180,000 on 28 February 2003.
2. The Company issued 66,480,000 ordinary shares of HK\$0.10 each at HK\$1.77 per share by way of placing and public offer in connection with the listing of its shares on The Stock Exchange of Hong Kong Limited on 30 April 2004.

These shares rank pari passu with the existing shares in issue in all respects.

## Notes to the Financial Statements

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## 19. RESERVES

## THE GROUP

	Share premium	Capital reserve	Other reserve	General reserve fund	Enterprise expansion fund	Shareholder's contribution	Translation reserve	Retained profits	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
At 1 January 2003	-	10,657,000	-	3,827,702	1,250,161	2,725,949	(509,053)	21,616,220	39,567,979
Premium arising on issue of shares	21,883,922	-	-	-	-	-	-	-	21,883,922
Exchange differences arising on translation of overseas operations	-	-	-	-	-	-	125,691	-	125,691
Capitalisation to share capital in a subsidiary	-	-	5,077,863	(3,827,702)	(1,250,161)	-	-	-	-
Net profit for the year	-	-	-	-	-	-	-	33,851,694	33,851,694
Transfer	-	-	-	3,589,024	-	-	-	(3,589,024)	-
At 31 December 2003	21,883,922	10,657,000	5,077,863	3,589,024	-	2,725,949	(383,362)	51,878,890	95,429,286
Premium arising on issue of shares	111,021,600	-	-	-	-	-	-	-	111,021,600
Share issue expenses	(17,368,488)	-	-	-	-	-	-	-	(17,368,488)
Dividend paid	-	-	-	-	-	-	-	(9,970,539)	(9,970,539)
Exchange differences arising on translation of overseas operations	-	-	-	-	-	-	(119,393)	-	(119,393)
Net profit for the year	-	-	-	-	-	-	-	55,366,818	55,366,818
Transfer	-	-	-	5,292,264	-	-	-	(5,292,264)	-
At 31 December 2004	115,537,034	10,657,000	5,077,863	8,881,288	-	2,725,949	(502,755)	91,982,905	234,359,284

## Notes to the Financial Statements

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**19. RESERVES (CONTINUED)****THE COMPANY**

	<b>Share premium</b> <i>HK\$</i>	<b>Contributed surplus</b> <i>HK\$</i>	<b>Retained profits</b> <i>HK\$</i>	<b>Total</b> <i>HK\$</i>
At 1 January 2003	–	29,411,660	46,966	29,458,626
Issue of shares	21,883,922	–	–	21,883,922
Net profit for the year	–	–	10,982,715	10,982,715
At 31 December 2003	21,883,922	29,411,660	11,029,681	62,325,263
Dividend paid	–	–	(9,970,539)	(9,970,539)
Premium arising on issue of shares	111,021,600	–	–	111,021,600
Share issue expenses	(17,368,488)	–	–	(17,368,488)
Net profit for the year	–	–	26,521,673	26,521,673
At 31 December 2004	115,537,034	29,411,660	27,580,815	172,529,509

The capital reserve of the Group represents the difference between the paid-in capital of the subsidiaries acquired pursuant to the group reorganisation and the nominal value of the Company's shares issued in exchange therefor.

The other reserve of the Group represents the capitalisation of general reserve fund and enterprise expansion fund in SinoCom Beijing as share capital of SinoCom Beijing in year 2003.

The shareholder's contribution of the Group represents waiver of amount due to a shareholder of the Company.

The contributed surplus of the Company represents the excess of the net assets of the subsidiaries acquired by the Company under the group reorganisation and the nominal value of the ordinary shares issued by the Company in exchange therefor.

## Notes to the Financial Statements

*For the year ended 31 December 2004*

### 19. RESERVES (CONTINUED)

#### THE COMPANY (continued)

In accordance with the PRC law and regulations on foreign enterprises, SinoCom Beijing is required to set aside 10% of its net profit to the general reserve fund until the fund aggregates to 50% of its registered capital. There is no limitation for SinoCom Beijing in respect of the percentage of its profit after tax to be transferred to the enterprise expansion fund. In accordance with its articles of association, SinoCom Beijing may transfer such amount of profits (after taxation) as determined by its board of directors to the general reserve fund and the enterprise expansion fund before distribution to its shareholders. The general reserve fund and the enterprise expansion fund are non-distributable and can be used to increase the capital of SinoCom Beijing. The general reserve fund can also be used to make good future losses.

### 20. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 2 April 2004 for the primary purpose of providing incentives to directors and 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, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. The basis of eligibility shall be determined by the board of directors of the Company from time to time on the basis of his contribution or potential contribution to the development and growth of the Group.

At 31 December 2004, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 17,730,000, representing approximately 6.67% of the shares of the Company in issue as at that date. As at the date of this report, a total of 8,859,078 share (representing approximately 3.33% of the existing issued share capital of the Company) are available for issue under the Scheme. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

## Notes to the Financial Statements

For the year ended 31 December 2004

### 20. SHARE OPTION SCHEME (CONTINUED)

The period within which an option may be exercised will be determined by the board of directors of the Company save that no option may be granted later than tenth anniversary of the date of grant. The exercise price is determined by the board of directors of the Company, but will not be less than the higher of (a) the closing price of the Company's shares on the date of grant; (b) the average closing price of the shares for the five business days immediately preceding the date of grant; and (c) the nominal value of a share of the Company. The amount payable on acceptance of an option is HK\$10.

The following table discloses details of the Company's share options held by employees during the year:

<b>Date of grant</b>	<b>Exercise price</b>	<b>Exercisable period</b>	<b>Granted during the year and Outstanding at 31.12.2004</b>
10.11.2004	HK\$2.5 (Note)	10.5.2005-9.11.2014	17,730,000

Note: Both the average closing price of the Company's shares for the five business days immediately preceding the date of grant and the closing price on that date were HK\$2.5.

Total consideration received during the year from employees for accepting the options granted amounts to HK\$970.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued will be recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares will be recorded by the Company in the share premium account. Options which lapse or will be cancelled prior to their exercise date will be deleted from the register of outstanding options.

## Notes to the Financial Statements

For the year ended 31 December 2004

### 21. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had commitments for future minimum lease payments in respect of rented premises which fall due as follows:

	<b>2004</b>	2003
	<b>HK\$</b>	HK\$
Within one year	<b>9,167,283</b>	6,136,870
In the second to fifth year inclusive	<b>10,147,062</b>	4,882,648
	<b>19,314,345</b>	11,019,518

Operating lease payments represent rentals payable by the Group for its office premises. Leases are negotiated for an average term of three years.

At the balance sheet date, the Company had no operating lease commitments.

### 22. RETIREMENT BENEFIT SCHEMES

The employees of SinoCom Beijing which is registered in the PRC are members of the pension scheme operated by the PRC local government. The PRC subsidiary is required to contribute a certain percentage of the relevant portion of the payroll of these employees to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is the required contributions under the pension scheme.

The employees of SinoCom Japan which is incorporated in Japan are members of the pension scheme operated by the Japan local government. The Japan subsidiary is required to contribute certain pre-fixed amounts of contribution, according to the level of income of each employee to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is the required contributions under the pension scheme.

## Notes to the Financial Statements

For the year ended 31 December 2004

### 22. RETIREMENT BENEFIT SCHEMES (CONTINUED)

The Group's contributions to the retirement benefit schemes, which are charged to the income statement, during the year are as follows:

	<b>2004</b>	2003
	<b>HK\$</b>	HK\$
Retirement benefit contributions made during the year	<b>4,103,610</b>	2,109,915