

“Streams merge into rivers, thus using it as an analogy any successful enterprises require the pooling of the endeavour of every single staff”

Mr. Wang Xubing
President



Mr. Wang Zhiqiang
Chairman

CONVERGENCE OF STREAMS FORMS RIVERS, ARRAYS OF TALENTS FORGE NEW HIGHS

On behalf of the board of directors (“the Board”) of Sinocom Software Group Limited (“ the Company”) I have the pleasure to present the annual report of the Company and its subsidiaries (“the Group”) for the financial year ended 31 December 2005 (“the Year”).

Over the Year we managed to continue the success achieved in the year before. The Group’s business results sustained their high growths that were contributed by the then favourable industry climate and our competitive advantage over our peers. Turnover reached HK\$250,657,000 while profit attributable to shareholders achieved HK\$60,012,000, culminating into their respective record highs.

BUSINESS PERFORMANCE AND PROFIT ACHIEVED NEW HIGHS

Software outsourcing has emerged as a vital tendency for global software products development. According to the market statistics publicized by the Business Weekly of the US, about one-third of the world’s software development production value has gone through software outsourcing. Yet the software outsourcing market has continued its extraordinary growth and the size of the market is believed to have exceeded US\$100 billion. And China has emerged in recent years as the world’s

China has emerged in recent years as the World’s high growth potential country

high growth potential country. IDC reported that China alone recorded a total revenue of US\$930 million in software outsourcing during 2005, an extraordinary annual growth rate of 55.6%. And Japan has been the largest market for China's software outsourcing industry players, representing more than 60% of the country's outsourcing revenue. With the Group's competitiveness in terms of geographical advantage, SinoCom is poised to be the most benefited by the industry's prominent growth drift.

Having been in software outsourcing for almost 10 years, the Group has laid a solid cornerstone in the industry. As a matter of fact the Group's supreme services gained the appreciation and applause of clients, which had contributed to the mounting business volume allocated by its existing clientele. The growth experienced in the financial year contemplated came from two key old clients and the aggregated business volume attributed to them grew at a significant rate of more than 30% per annum. On the other hand, business from new clients also recorded impressive growth. It suffices to say the performance was satisfactory.

To preserve its leading position in the industry the Group had, in addition to organic growth, capitalized on inorganic expansion, i.e. M&A, to expedite its pace of business development. During the year the Group invested RMB13 million to acquire a company in Shanghai that focused on software development outsourced from Japan. The Board believes such an acquisition will help fuel the Group's future business growth for the Japanese market.

**The Group has laid
a solid cornerstone
in the Industry**

RECRUITING SUPERIOR AND HIGH-END TALENTS

Fueled by the burgeoning software outsourcing business in China, demand for talents in the industry had been tight. This phenomenon prompted the Group to formulate a series of measures to attract and recruit superior and talented professionals. And these plans – aimed to increase the staff's sense of belonging and loyalty – encompassed internal training, stock options for senior management as well as technical staff, and promotion opportunities for employees with good potential in their career developments. The measures had proved to be rewarding – the Group accomplished to increase its number of employees to the vicinity of 1,770 people, accounting for a drastic increase of 77% over 2004, and the attrition rate during the year continued to be low comparing with its counterparts.

As anticipated the salary benchmark for the employment market continued to trend upward. Hence, the Group increased the average salary level of our staff by about 15% to meet the market trend. No doubt, this had increased individual labour cost. To alleviate such an impact, the Group managed to improve the human structure in its organization, thus improving overall cost efficiency. Gross profit margin during the period was therefore able to be maintained at 50.6%.



The business environment and the internal contributing factors remained to be in its favour; still, there was some challenge that the Group faced. The exchange risk, a risk common to the export-oriented industry, required some sort of resolve. The international political pressure on the appreciation of RMB was looming high while Japanese yen continued its depreciation during the year, posing increasing exchange risk to the Group. In the beginning of 2005, the Group was able to swap its Japanese yen revenue into RMB to accommodate its operating requirement for the year without any significant impact on the bottom line. However the prolonged depreciation of Japanese yen into the second half of the year had, to some extent, unavoidably put its business results under squeeze.

FOCUSING ON THE JAPANESE MARKET

Software outsourcing is an emerging industry full of vitality and is expected to continue to boom. And China, with its currently stable economic environment, provides a low cost environment for the industry. Cost for human resource has been 20% to 40% lower than other outsourcing markets, hence attracting increasing number of foreign enterprises to outsource their software development projects to China. IDC recently projected that China's software outsourcing market is poised to maintain a 50.9% annual compound growth rate through 2009 to US\$4.696 billion. Based on the projection the Board is very confident about the Group's business in the coming financial year and believes that high growth can be sustained.

Looking forward, the Group's business development strategy will continue to concentrate on software outsourcing. On the other hand the Group will also increase its pace in technical supporting services. Japan will continue to be the Group's major target market for its business as there are similarities in languages and cultures between the two countries. Furthermore Japan, as an outsourcing market, will continue to grow. With SinoCom's tremendous experience in the Japanese market and its outstanding track record, the Board believes continuing focus on this market can be extremely

rewarding – as the Chinese saying goes: half the work with double results.



As mentioned before, to reduce the exchange risk that could bring forth uncertainty to the Group's business performance, the Board had some thorough discussions and managed to formulate an effective controlling policy on exchange risk control. The policy stipulated that about 30% of its Japanese yen booked would be used to purchase financial instrument for hedging purpose. It is believed that this policy can effectively reduce exchange risk in our operation.

POOL OF TALENTS ENHANCED IMPETUS

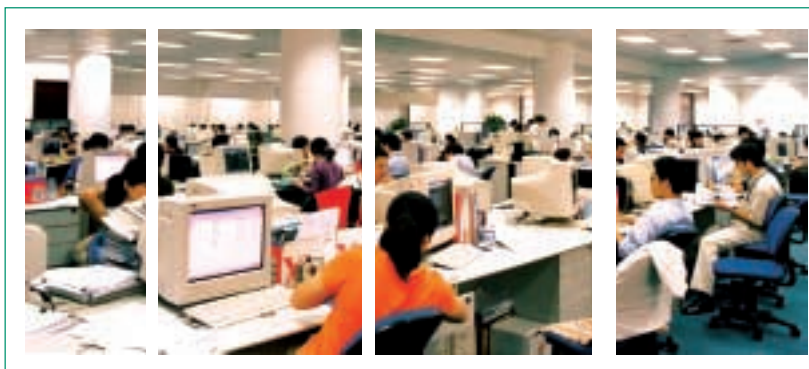
With the Group's burgeoning evolution and its growing staff force the Group cherishes the importance of enterprise management. The Group has endeavoured and will continue to escalate the construction and operation of its information system and to introduce advanced management methodology into its operation. Together with the increase in the senior managing personnel the Group will enhance our managing capability and thus utilize our talents effectively.

Streams merge into rivers, thus using it as an analogy any successful enterprises require the pooling of the endeavour of every single staff. Going forward, SinoCom will strive to increase its acquisition capacity. The Group will merge or acquire software outsourcing ventures that command good potential and afford synergetic advantage to the Group. And through M&A activities the Group will integrate its businesses to forge a strong driving force for the industry. Culmination after Culmination – SinoCom will continue to lead ahead.

**Culmination after
Culmination –
SinoCom will
continue to lead
ahead**

APPRECIATION

I would like to make use of this opportunity to give my heartfelt appreciation to the Board, our management and other staff for their perseverance and endeavour. I am also grateful to our shareholders and clients for their trust and support. And because of them our business thrived and excelled.



Wang Zhiqiang

Chairman and Chief Executive Officer

Hong Kong, 30 March 2006