REVIEW OF RESULTS AND OPERATIONS

The Group's consolidated turnover for the year ended 31 December 2005 was approximately HK$250,657,000, representing an increase of approximately 40.6% when compared to 2004. Outsourcing software development work from the Group's existing Japanese customers and the provision of technical support services continued to grow in 2005. Turnover derived from outsourcing software development work increased by approximately 35.6% to approximately HK$232,739,000. Among which HK$3,343,000 was contributed from SinoCom Shensoft for Japanese customers and HK$7,043,000 from SinoCom Hanyang for customers in China. This increase was mainly attributable to the growth in business volume from the Group's two largest Japanese customers. Business growth momentum remained strong during the year. There was also a new Japanese customer became one of the five largest customer for the year. Turnover derived from technical support services increased by approximately 49.6% to approximately HK$17,917,000. Business from new customers as well as the enlarged service network coverage for its existing international technical support service business partner in China which mainly accounted for the increase.

There were 1,770 staff headcounts as at 31 December 2005, an addition of 770 from 1,000 at beginning of the year. Out of the 770 additional headcounts, there were 310 and 97 additional headcounts from SinoCom Shensoft and from SinoCom Hanyang respectively. The remaining 363 additional headcounts were mainly increases in software engineers employed by the Group's Beijing headquarters to cope with the expansion in business volume. Turnover growth of 40.6% was less the headcount growth, which was 77%, mainly due to impact of weaken Japanese yen on the turnover when translating to HK dollars and only one month turnover of SinoCom Shensoft was consolidated to the Group's revenue. When eliminating the turnover contribution by and the headcounts of the newly acquired subsidiaries, the turnover growth would be 34.8% while the headcount growth would be 36.3%. Difference in these two rates was exactly due to the weak Japanese yen impact on turnover. Work sub-contracting out amounted to approximately HK$6.04 million, or approximately 2.41% of the total turnover in 2005. The corresponding percentage in 2004 was 2.9%.

The Group was able to maintain its high gross profit margin at approximately 50.6% in 2005, a further improvement over the remarkable 48.7% gross profit margin in 2004. As a result, gross profit for the year increased to approximately HK$126,701,000, or 46.1% increase, when compared to the gross profit of HK$86,731,000 in 2004. To this end, the Group successfully controlled its manufacturing staff costs, which was the major cost item of its cost of sales, at approximately 37.4% of total turnover in 2005 (2004: 37.8%). Productivity and efficiency of the manufacturing staff further enhanced during the year as reflected by the lesser work sub-contracting out addressed in the preceding paragraph. Rent and utilities as a percentage of total turnover decreased to 4.2% in 2005 (2004: 5%).

Operating profit and net profit attributable to shareholders in 2005 increased by approximately 18.3% and 14.8% to HK$69,617,000 and HK$60,012,000 respectively. Operating margin and net profit margin in 2005 were approximately 27.8% and 23.9% respectively and the effective tax rate was approximately 13%. Unrealized foreign exchange loss when translating the foreign currency assets mainly denominated in Japanese yen into the reporting currency, HK dollar, amounted to HK$20,145,000, or 8% of the total turnover, represented the drop in net profit margin.

Liquidity and Financial Resources

Since inception, the Group has funded its operations through equity funding and cash from operation and has no bank borrowings. The Group continued to maintain this strong cash generating capability for the year. During the year, the Group financed its operations and investing activities solely with internally generated cash flow. The bank loan of approximately HK$823,000 as at 31 December 2005 was borrowed by a subsidiary before it was acquired by the Group.

SHARE CAPITAL

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period from the date of listing to 31 December 2005.

As at 31 December 2005, the number of shares in respect of which options had been granted under the share option scheme of the Company was 17,730,000, representing approximately 6.67% of the shares of the Company in issue at that date.

PLEDGE OF ASSETS

As at 31 December 2005, the Group had not pledged any of its assets.

EMPLOYEES AND REMUNERATION POLICY

The Group had 1,770 full time staff as at 31 December 2005. 310 and 97 out of which were staff of SinoCom Shensoft and of SinoCom Hanyang, newly acquired subsidiaries during the year. Most of them are engineers located in China. Besides staff of newly acquired subsidiaries, there were 1,146 software engineers, 74 technical support engineers, and 62 management and administrative staff in China. There were also 81 mostly bridged system engineers worked at customers' locations in Japan. Their remuneration, promotion and salary review are assessed based on job responsibilities, work performance, professional experiences and the prevailing industry practice. The Group also offers project bonus and performance bonus to its staff. Project bonus is calculated by allowing a fixed amount per man-month of work completed in a project and distributed among staff engaged according to their respective contributions in the project. Performance bonus is calculated based on an evaluation of individual efforts and the financial performance of the Group. Adequate resources are preserved for Japanese language training on regular basis, new I.T. knowledge training and business domain knowledge training for each project before commencement of a project. On the job training is also provided after a project commenced. The Group maintains social insurance schemes for retirement, unemployment, personal injury and hospitalization for all of its employees in China. A housing provident fund system has also been implemented for its employees in China. Staff in Japan are enrolled under the requisite pension fund and health scheme as required by Japanese law.

FOREIGN EXCHANGE AND CURRENCY RISKS

Since most of the Group's revenue was generated from software development outsourced from Japan in Japanese Yen while expenses were settled in RMB, any depreciation of Japanese Yen against RMB, will reduce the income of the Group and have an adverse impact on the profitability of the Group. The Group had not adopted any hedging policy to reduce its exchange rate exposure in 2005. Its strategy was to build up a RMB reserve by changing Japanese Yen into RMB when exchange rates were considered favourable by the management. By end of 2005, the RMB reserve was nearly used up. Actually, most of the foreign exchange loss reported in the year was unrealized exchange loss as a result of translating foreign currency assets in Yen into reporting currency in HK dollar at year end date. Nevertheless, the Group planned to cover one third of its currency exposure by appropriate hedging tools in addition to its RMB reserve strategy.

CONTINGENT LIABILITIES

As at 31 December 2005, the Group had no material contingent liabilities.

CAPITAL COMMITMENTS

As at 31 December 2005, the Group had no material capital commitments.