1. GENERAL

The Company is a limited liability company incorporated in the Cayman Islands. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited from 30 April 2005. Its ultimate holding company is China Way International Limited (incorporated in the British Virgin Islands). The address of the registered office of the Company is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 681 GT, George Town, Grand Cayman, British West Indies.

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

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

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2005. The adoption of these new and revised Standards and Interpretations has resulted in changes to the Group's accounting policies in the following areas that affected the amounts reported for the current or prior years:

– share-based payments (HKFRS 2)
– business combinations (HKFRS 3)
– financial instruments (HKAS 32)

The presentation of minority interests has been changed. The changes in presentation have been applied retrospectively.

The impact of these changes in accounting policies is discussed below. The impact on basic and diluted earnings per share is discussed in note 13.

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

HKFRS 2 Share-based Payments

In the current period, the Group has applied HKFRS 2 Share-based Payment which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 retrospectively to share options that were granted after 7 November 2002 and had not yet vested on 1 January 2005. Comparative figures have been restated (see table on page 38 for the financial impact).

HKFRS 3 Business combinations

In the current year, the Group has applied, for the first time, HKFRS 3 which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects are as follows:

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

The adoption of HKFRS 3 has no impact on the results of prior year.

HKAS 32 Financial Instruments

HKAS 32 Financial Instruments: Disclosure and Presentation requires retrospective application and primarily addresses the classification of a financial instrument issued by an entity and prescribes disclosure requirements of financial instruments.

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

Cost of equity transactions

Under HKAS 32, the Group records transaction costs of an equity transaction as a deduction from equity. The transaction costs of an equity transaction are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. Transaction costs that relate jointly to more than one transaction (for example, costs of a concurrent offering of some shares and a stock exchange listing of other shares) are allocated to these transactions using a basis of allocation that is rational and consistent with similar transactions.

On applying HKAS 32, an adjustment of approximately HK$2,278,848 relating to listing expenses has been reversed from share premium and included in administrative expenses for the year ended 31 December 2004.

The effects of the changes in the accounting policies described above on the results for the current and prior years are as follows:

	2005	2004
	HK$	*HK$*
Expenses in relation to share options granted to employees, included in administrative expenses	**4,077,665**	832,177
Indirect listing fee, included in administrative expenses	**–**	2,278,848
Decrease in profit for the year	**4,077,665**	3,111,025

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

The cumulative effects of the application of the new HKFRSs as at 31 December 2004 are summarised below:

	As at 31/12/2004 (originally stated)	**Adjustment**	**As at 31/12/2004 (restated)**
	HK$	*HK$*	*HK$*
Share capital	26,589,078	–	26,589,078
Retained earnings	91,982,905	(3,111,025)	88,871,880
Share premium	115,537,034	2,278,848	117,815,882
Share options reserve	–	832,177	832,177
Capital reserve	10,657,000	–	10,657,000
Other reserve	5,077,863	–	5,077,863
General reserve fund	8,881,288	–	8,881,288
Shareholder's contribution	2,725,949	–	2,725,949
Translation reserve	(502,755)	–	(502,755)
Minority interest	–	526,611	526,611
Total effects on equity	260,948,362	526,611	261,474,973
Minority interest	526,611	(526,611)	–
	261,474,973	–	261,474,973

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

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet elective:

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures[3]
HKAS 21 (Amendment)	Net Investment in a Foreign Operation[3]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[3]
HKAS 39 (Amendment)	The Fair Value Option[3]
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts[3]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[3]
HKFRS 7	Financial Instruments: Disclosures[1]
HK (IFRIC)-Int 4	Determining Whether an Arrangement contains a Lease[3]
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissing, Restoration and Environmental Rehabilitation Funds[3]
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment[4]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 of Financial Reporting in Hyperinflationary Economies[2]

1 Effective for annual periods beginning on or after 1 January 2007
2 Effective for annual periods beginning on or after 1 March 2006
3 Effective for annual periods beginning on or after 1 January 2006
4 Effective for annual periods beginning on or after 1 December 2005

The directors anticipate the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis and in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combination

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured as the aggregate of the fair values, at the date of exchange of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities meeting the conditions for recognition under HKFRS 3 are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations", which are recognised at fair value less costs to sell.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combination (continued)

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Impairment testing on capitalised goodwill

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Revenue recognition

Revenue from provision of outsourcing software development services and technical support services is recognised in the year in which the services have been delivered.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Hong Kong dollars, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary item any exchange component of that gain or loss is also recognised directly in equity.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Hong Kong dollars using exchange rates on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognized in profit or loss in the year in which they are incurred.

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. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised 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 from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

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.

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 realized, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Property, plant and equipment

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

Depreciation is charged so as to write off the cost or valuation of assets 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 item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment of assets excluding goodwill

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 any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of assets excluding goodwill (continued)

Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) 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 (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so 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 (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a define contribution retirement benefit plan.

Operating leases

Lease are classified as finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade and other assets

Trade and other assets are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Amounts due from and to related parties

Amounts due from and to related parties are subsequently measured at amortised cost using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Bank borrowings

Interest-bearing bank loans are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis and charged to the income statement using effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade and other payables

Trade and other payables are subsequently measured at amortised cost, using the effective interest rate method.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees of the Company
The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are still not exercised at the expiry date, the amount previously recognised in share option reserve will continue to be held in share option reserve.

4. KEY SOURCES OF ESTIMATION

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. Details of the recoverable amount calculation are disclosed in Note 15.

5. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December, 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. The Group's trade receivables as at 31 December 2005 are mainly due form a few customers. The management closely monitors the subsequent settlement of the customers and does not grant long credit period to them. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

5. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

Currency risk

The Group's transactions are mainly denominated in Japanese Yen and is therefore exposed to foreign currency risk of Japanese Yen. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

6. TURNOVER

	2005	2004
	HK$	*HK$*
Outsourcing software development services	**243,328,555**	173,785,803
Technical support services	**18,988,532**	12,727,253
	262,317,087	186,513,056
Business tax	**(11,660,134)**	(8,204,378)
	250,656,953	178,308,678

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

The Group is principally engaged in the provision of outsourcing software development services and accordingly. For the year ended 31 December 2005, the 92.76% of turnover are generated from outsourcing software development service and according (for the year ended 31 December 2004 is 93.18%), and accordingly, no business segment analysis is presented.

For management purpose, the Group is currently engaged in the provision of service in two markets, People's Republic of China ("PRC") and Japan. The Group's primary format for reporting segment information is geographical segment.

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

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 2005

	People's Republic of China ("PRC") HK$	Japan HK$	Consolidated HK$
Turnover	26,855,962	223,800,991	250,656,953
Cost of services	(16,617,582)	(107,337,930)	(123,955,512)
Segment results	10,238,380	116,463,061	126,701,441
Other income			3,303,729
Unallocated corporate expenses			(60,387,716)
Profit before taxation			69,617,454
Taxation			(9,036,151)
Profit for the year			60,581,303

	PRC HK$	Japan HK$	Consolidated HK$
Segment assets	158,654,295	63,719,624	222,373,919
Unallocated corporate assets			130,604,126
			352,978,045
Segment liabilities	19,171,164	9,959,311	29,130,475
Unallocated corporate liabilities			4,549,935
			33,680,410
Additions to property, plant and equipment	3,387,658	228,185	3,615,843
Depreciation	2,718,799	265,592	2,984,391
Loss on disposal of property, plant and equipment	42,997	–	42,997

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Year ended 31 December 2004

	PRC *HK$*	Japan *HK$*	Consolidated *HK$*
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 income			5,496,761
Unallocated corporate expenses			(33,397,920)
Profit before taxation			58,829,456
Taxation			(6,523,936)
Profit for the year			52,305,520

	PRC *HK$*	Japan *HK$*	Consolidated *HK$*
Segment assets	110,203,572	48,710,779	158,914,351
Unallocated corporate assets			132,741,755
			291,656,106
Segment liabilities	16,188,688	7,158,099	23,346,787
Unallocated corporate liabilities			6,834,346
			30,181,133
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

8. OTHER INCOME

	2005	2004
	HK$	*HK$*
Government subsidies	**185,960**	2,346,485
Foreign exchange gain	**–**	2,555,837
Interest income	**2,439,217**	433,184
Others	**678,552**	161,255
	3,303,729	5,496,761

9. TAXATION

	2005	2004
	HK$	*HK$*
PRC enterprise income tax		
– Current year	**8,312,305**	6,425,933
– Overprovision in prior years	**–**	(150,944)
Japan income tax	**723,846**	248,947
	9,036,151	6,523,936

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 enjoy the reduced state enterprise income tax rate of 15%. In addition, SinoCom Beijing is subject to a more favorable income tax rate of 10% pursuant to relevant PRC regulations as the annual export revenue of its software development business is more than 70% of SinoCom Beijing's total annual income.

SinoCom-Artm Technology Limited ("SinoCom-Artm Technology"), a subsidiary of the Company, is recognized as a technologically advanced enterprise by the relevant PRC government authorities since 24 August 2005. Pursuant to the Income Tax Laws, SinoCom-Artm Technology was entitled to enjoy enterprise income tax of 15%.

9. TAXATION (CONTINUED)

Shensoft Computer Technology (Shanghai) Company Limited ("Shensoft Shanghai"), a subsidiary of the Company, is recognized as a technologically advanced enterprise by the relevant PRC government authorities since 30 June 2005. Pursuant to the Income Tax Laws, Shensoft Shanghai was entitled to enjoy enterprise income tax of 15%.

Other PRC subsidiaries of the Company are subject to PRC income tax rate of 33% of the estimated assessable profit for the year.

Taxation arising in Japan is calculated at a progressive statutory rate of 22% on the portion of taxable income not exceeding Yen8,000,000 (equivalent to approximately HK$567,168) and 30% on the portion of taxable income in excess of Yen8,000,000.

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

	2005	2004
	HK$	*HK$*
Accounting profit before taxation	**69,617,454**	58,829,456
Taxation at PRC income tax rate at 15%	**10,442,618**	8,824,418
Tax effect of expense that are not deductible in determining taxable profit	**18,802**	188,500
Tax effect of income not taxable for tax purpose	**–**	410,852
Effect of more tax favour in respect of export revenue exceeding 70% of total income	**(4,035,267)**	(3,212,966)
Overprovision in prior years	**–**	(150,944)
Effect of different tax rates of subsidiary operating in other jurisdiction	**2,609,998**	464,076
Tax expenses	**9,036,151**	6,523,936

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

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the five (2004: five) directors were as follows:

	Wang Zhiqiang *HK$*	Wang Xubing *HK$*	Siu Kwok Leung *HK$*	Jun Otaka *HK$*	Shi Chongming *HK$*	Total *HK$*
2005						
Bonus	–	–	–	–	–	–
Other emoluments						
Salaries and other benefits	**1,189,579**	**1,189,579**	**915,848**	**57,269**	**981,385**	**4,333,660**
Retirements benefits scheme contribution	**15,729**	**15,729**	**–**	**–**	**34,457**	**65,915**
Total emoluments	**1,205,308**	**1,205,308**	**915,848**	**57,269**	**1,015,842**	**4,399,575**
2004						
Bonus	990,000	990,000	200,000	200,000	388,000	2,768,000
Other emoluments						
Salaries and other benefits	972,574	972,573	781,093	–	955,152	3,681,392
Retirements benefits scheme contribution	13,140	13,141	–	–	37,158	63,439
Total emoluments	1,975,714	1,975,714	981,093	200,000	1,380,310	6,512,831

Note: The performance related incentive payments was determined as a percentage of the profit of the Group for the year 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.

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

(b) Employees' emoluments

The five highest paid employees included four directors (2004: four directors) for the year ended 31 December 2005, details of whose emoluments are set out in note 10 (a) above. The details of the emoluments of the remaining one (2004: one) highest paid individuals for the year were as follows:

	2005	2004
	HK$	*HK$*
Salaries and other benefits	**661,594**	571,644
Retirement benefit schemes contributions	**40,430**	32,839
	702,024	604,483

11. PROFIT FOR YEAR

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

	2005	2004
	HK$	*HK$*
Auditors' remuneration	**1,268,136**	800,000
Recognition of equity-settled share based payments expense	**4,077,665**	832,177
Foreign exchange loss	**20,906,410**	174,894
Depreciation of property, plant and equipment	**2,984,391**	2,470,794
Loss on disposal of property, plant and equipment	**42,997**	54,101
Operating lease rentals in respect of rented premises	**13,242,562**	9,584,656
Allowance for bad and doubtful debts	**–**	160,383
Staff costs:		
Director's emoluments	**4,399,575**	6,512,831
Other staff costs		
– Wages and salaries	**101,905,264**	72,947,400
– Retirement benefit schemes contributions	**6,829,251**	4,040,171
	113,134,090	83,500,402

12. DIVIDEND

On 6 May 2005, a final dividend of HK10 cents per share (total dividend HK$26.59 million) in respect of the financial year ended 31 December 2004 was paid to the shareholders.

In respect of the financial year ended 31 December 2005, the directors propose that a dividend of HK11 cents per share. This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The total estimated dividend to be paid is HK$29.72 million.

13. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the parent is based on the following data:

	Year ended 31/12/2005	Year ended 31/12/2004
	HK$	*HK$*
Earnings		
Earnings for the purpose of basic and diluted earnings per share (profit for the year attributable to equity holders of the Company)	**60,012,355**	52,255,793

Number of shares

	Year ended 31/12/2005	Year ended 31/12/2004
Weighted average number of ordinary shares for the purpose of basic earnings per share	**268,310,694**	244,091,990
Effect of dilutive potential ordinary shares:		
Share options	**6,284,391**	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**274,595,085**	244,091,990

13. EARNINGS PER SHARE (CONTINUED)

The computation 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.

Impact of changes in accounting policies

Changes in the Group's accounting policies during the year are described in detail in note 2. To the extent that those changes have had an impact on results report for year 2005 and 2004, they have had an impact on the amounts reported for earning per share. The following table summarises that impact on both basic and diluted earnings per share:

	Impact on basic earnings per share		**Impact on diluted earnings per share**	
	Year ended 31/12/2005 ***HK cents***	Year ended 31/12/2004 *HK cents*	**Year ended 31/12/2005** ***HK cents***	Year ended 31/12/2004 *HK cents*
Figures before adjustments	**23.9**	22.7	**23.4**	22.7
Adjustments arising from changes in accounting policies	**1.5**	1.3	**1.5**	1.3
As restated	**22.4**	21.4	**21.9**	21.4

14. PROPERTY, PLANT AND EQUIPMENT

	Office equipment HK$	Motor vehicles HK$	Leasehold improvements HK$	Total HK$
COST				
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 for the year	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
Exchange realignment	50,376	(25,332)	40,029	65,073
Additions for the year	2,545,738	–	1,070,105	3,615,843
Acquired on acquisition subsidiaries	1,761,391	186,784	256,130	2,204,305
Disposals	(511,767)	–	–	(511,767)
At 31 December 2005	13,353,419	2,588,710	3,459,719	19,401,848
DEPRECIATION				
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
Exchange realignment	(14,886)	(15,115)	18,012	(11,989)
Provided for the year	1,956,346	311,570	716,475	2,984,391
Eliminated on disposals	(452,861)	–	–	(452,861)
At 31 December 2005	5,134,634	1,617,907	1,681,876	8,434,417
NET BOOK VALUES				
At 31 December 2005	8,218,785	970,803	1,777,843	10,967,431
At 31 December 2004	5,861,646	1,105,806	1,146,066	8,113,518

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Following the adoption of HKAS 16 *Property, Plant and Equipment*, which is effective for the current accounting period, the Group has reviewed the residual values used for the purposes of depreciation calculations in the light of the amended definition of residual value in the Standards. The review did not highlight any requirement for an adjustment to the residual values used in the current or prior periods. In line with the new requirements, these residual values will be reviewed and updated annually in the future.

15. GOODWILL

	HK$
Cost	
At 1 January 2004 and At 1 January 2005	–
Arising on acquisition of subsidiaries (see note 23)	6,289,788
At 31 December 2005	6,289,788
Impairment	
Impairment loss recognised in the year ended 31 December 2005 and balance at 31 December 2005	–
Carrying amount	
At 31 December 2005	6,289,788
At 31 December 2004	–

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated as follows:

	HK$
Outsourcing software service:	
SinoCom-Artm Technology Limited	**551,785**
SinoCom Shensoft Holdings (BVI) Limited	**5,738,003**
	6,289,788

15. GOODWILL (CONTINUED)

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next five years and extrapolates cash flows for the following five years based on an estimated growth rate 30% and a discount rate of 6%. This rate does not exceed the average long-term growth rate for the relevant markets.

16. SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2005 are as follows:

Name of subsidiary	Place of incorporation and operation	Class of share held	Proportion of ownership interest	Principal activities
SinoCom Holdings (BVI) limited	British Virgin Islands ("BVI")	Ordinary shares US$3,624,502	100%	Investment holding
Zhongxun Software Inc.	Japan	Ordinary shares JPY40,000,000	90.25%	Provision of outsourcing software development services
Zhongxun Computer System (Beijing) Co., Ltd	PRC*	Registered capital US$6,040,800	100%	Provision of outsourcing software development and technical support services
SinoCom Ideas Holdings Limited	BVI	Ordinary shares US$160,000	100%	Investment holding
SinoCom Development Holdings Limited	BVI	Ordinary shares US$423,217	100%	Investment holding

16. SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation and operation	Class of share held	Proportion of ownership interest	Principal activities
SinoCom Innovative Technology Software Limited	PRC*	Registered capital US$370,000	100%	Provision of outsourcing software development and technical support services
SinoCom-Artm Technology Limited	PRC*	Registered capital RMB2,500,000	60%	Provision of outsourcing software development and technical support services
SinoCom Technology Limited	HK	Ordinary shares HK$10,000	100%	Inactive
SinoCom Shensoft Holdings (BVI) Limited (Note 1)	BVI	Ordinary shares US$500,000	55%	Investment holding
Dalian SinoCom High Technology Software Limited	PRC*	Registered capital HK$3,200,000	100%	Provision of outsourcing software development and technical support services

16. SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation and operation	Class of share held	Proportion of ownership interest	Principal activities
Shensoft Computer Technology (Shanghai) Co., Limited	PRC*	Registered capital US$232,000	55%	Provision of outsourcing software development and technical support services
Shensoft Computer Technology Co., Limited	Japan	Registered capital JPY10,000,000	55%	Provision of outsourcing software development and technical support services

* The form of business structure is limited company.

Note 1: After the completion of the share transfer and subscription agreement on 21 November 2005, Sinocom Shensoft Holdings (BVI) Limited ("SinoCom Shensoft") is held as to 55% by SinoCom Holdings (BVI) Limited ("SinoCom BVI") and as to 45% by Shensoft Holdings (BVI) Limited ("Shensoft") and becomes a non wholly-owned subsidiary of the Company. At Completion, SinoCom BVI, Shensoft, Sinocom Shensoft and the shareholders of Shensoft entered into the shareholders' agreement. Pursuant to the shareholders' agreement, SinoCom BVI granted the put option to Shensoft. Under the put option, Shensoft is entitled to sell the shares to SinoCom BVI and SinoCom BVI is obliged to purchase such shares from Shensoft at the exercise price during the option period, provided that the aggregate number of Shares to be sold under the put option shall not exceed the cap. The exercise of the put option is at the discretion of shensoft. The put option is not transferable. Completion of the sale and purchase of shares pursuant to the exercise of the put option shall take place within 30 calendar days from the date of exercise (or any other date as mutually agreed). Term of the option is for a 30-year period commencing on the date of the shareholders' agreement. The option period is determined after arm's length negotiations between the Group and the Shensoft Shareholders taking into account, among others, the formula for determining the exercise price and the likely retirement age of the Shensoft shareholders.

The aggregate number of shares that can be sold by Shensoft under the put option is subject to (a) a maximum of the aggregate number of such sale of shares not exceeding 22.5% of shares issued as at the date of the shareholders' agreement, i.e. 112,500 shares; and (b) the aggregate consideration of such sale of shares not exceeding RMB350,000,000. This amount is determined with reference to the potential business expansion of Sinocom Shensoft in the option period. Under the shareholders' agreement, SinoCom BVI shall pay the exercise price in cash.

16. SUBSIDIARIES (CONTINUED)

Note 2: None of the subsidiaries had any debt securities outstanding during the year or at the end of the year 31 December 2005 (2004: Nil).

Note 3: The immediate holding company of these subsidiaries is either Sinocom Holdings (BVI) Limited, SinoCom Shensoft Holdings Limited, SinoCom Ideas Holdings Limited, or SinoCom Development Holdings Limited.

17. OTHER FINANCIAL ASSETS

Trade and other receivables

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

	2005	2004
	HK$	*HK$*
0-30 days	**31,020,458**	16,972,295
31 – 60 days	**4,069,396**	7,095,255
61 – 90 days	**3,021,165**	1,378,145
91 – 180 days	**853,333**	259,229
181 – 365 days	**116,925**	16,564
Trade debtors	**39,081,277**	25,721,488
Other debtors	**7,501,363**	7,543,758
Deposits	**3,852,865**	2,097,182
Prepayments	**1,106,684**	874,505
	51,542,189	36,236,933

The directors consider that the carrying amount of trade and other receivable approximates their fair value.

Bank balance and cash

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less which are carried at fixed interest. The carrying amount of these assets approximates their fair value.

18. AMOUNTS DUE FROM/TO RELATED PARTIES

	2005	2004
	HK$	*HK$*
Amount due from a director *(Note)*	**231,188**	–
Amounts due from shareholders	**2,585**	–
	233,773	–
Amounts due to directors	**–**	2,027,647
Amount due to a shareholder	**12,140**	43,596
	12,140	2,071,243

Note: The maximum amount outstanding during the year is HK$231,188.

The directors consider that the carrying amounts due from/to related parties approximates their fair value.

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

19. TRADE AND OTHER PAYABLES

	2005	2004
	HK$	*HK$*
Trade creditors	**662,328**	1,060,912
Accruals and other payables	**28,456,007**	23,556,544
	29,118,335	24,617,456

Trade creditors and accruals principally comprise amounts outgoing for trade purchases and ongoing costs.

19. TRADE AND OTHER PAYABLES (CONTINUED)

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

	2005	2004
	HK$	*HK$*
0 – 60 days	**625,345**	942,488
61 – 90 days	**7,690**	67,107
Over 90 days	**29,293**	51,317
	662,328	1,060,912

The directors consider the carrying amount of trade payables approximated their fair value.

20. BANK LOANS

	2005	2004
	HK$	*HK$*
Bank loans	**822,835**	–

The borrowings are repayable as follows:

	2005	2004
	HK$	*HK$*
On demand or within one year:	**297,230**	–
In the second year	**297,230**	–
In the third year	**228,375**	–
	822,835	–
Less: Amount due within one year shown under current liabilities	**297,230**	–
	525,605	–

20. BANK LOANS (CONTINUED)

The carrying amounts of the Group's borrowings are denominated in the following currency:

	2005	2004
	JPY loan	JPY loan
	HK$	*HK$*
Bank loans	**822,835**	–

The range of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2005	2004
Fixed-rate bank loans	**2%-2.5%**	–

The directors consider that the carrying amount of the Group's borrowings approximated their fair value.

21. SHARE CAPITAL

	2005	2004
	HK$	*HK$*
Authorised:		
1,000,000,000 ordinary shares of par value HK$0.1 each	**100,000,000**	100,000,000
Issued and fully paid:		
At the beginning of the year	**26,589,078**	19,941,078
Issue of shares	**–**	6,648,000
Exercise of share option *(Note)*	**427,700**	–
At the end of the year	**27,016,778**	26,589,078

Note: The share options grand to staff were exercise at HK$2.5 per share during the year.

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

22. 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 eligible employees, and will expire on 1 April 2014. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees to subscribe for shares in the Company.

At 31 December 2005, the number of shares in respect of which options had been granted under the Scheme was 17,730,000 (2004: 17,730,000), representing 6.67% (2004: 6.67%) of the shares of the Company in issue at that date. 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 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.

Options may be exercised on the date of grant of the share option or after the date on which the share option is granted over a period as the Board of Directors may determine up to the tenth anniversary of the date of grant. No consideration is payable on the grant of an option. Options are exercisable at a price that is determinable by the directors of the Company, and will not be less than the higher of the closing price of the Company's shares on the date of grant, and the average closing price of the shares for the five business days immediately preceding the date of grant.

Details of specific category of options are as follow:

Date of grant	Exercisable period	Exercise price
10/11/2004	10/11/2004-9/11/2014	HK$2.5

22. SHARE OPTION SCHEME (CONTINUED)

Details of the share options outstanding during the year are as below:

	Number of share options
Outstanding at the beginning of the year	17,730,000
Granted during the year	–
Forfeited during the year	(325,000)
Exercised during the year	(4,277,000)
Expired during the year	–
Outstanding at the end of the year	13,128,000

The option may be exercisable during the period of ten years from the date of grant, being 10 November 2004 to 9 November 2014 (both days inclusive), in the following manner:

(a) no part of the option may be exercisable prior to and including 10 May 2005, the first semi-anniversary of the date of grant (the "First Semi-anniversary");

(b) 25% of the option will be exercisable at any time after the First Semi-anniversary up to and including 9 November 2014;

(c) a further 25% of the option will be exercisable at any time on or after the first anniversary of the First Semi-anniversary (that is, 10 May 2006) up to and including 9 November 2014;

(d) another 25% of the option will be exercisable at any time on or after the second anniversary of the First Semi-anniversary (that is, 10 May 2007) up to and including 9 November 2014; and

(e) the remaining 25% of the option will be exercisable at any time on or after the third anniversary of the First Semi-anniversary (that is, 10 May 2008) up to and including 9 November 2014.

22. SHARE OPTION SCHEME (CONTINUED)

As mentioned in Note 2, the Group has, for the first time, applied HKFRS 2 Share-based Payments to account for its share options in the current period. In accordance with HKFRS 2, fair value of share options granted to employees determined at the date of grant is expensed over the vesting period, with a corresponding adjustment to the Group's share option reserve. In the current year, an amount of share option expense of HK$4,077,665 (2004: HK$832,177) has been recognised in the current year, with a corresponding adjustment recognised in the Group's share option reserve. The Group has applied HKFRS 2 retrospectively, for detail financial impact of prior year refer to Note 2.

The closing price of the Company's shares immediately before 10 November 2004, the date of grant of options, was HK$ 2.50.

The closing price of the Company's shares immediately before 10 May 2005, the date on which the options were exercised, was HK$ 5.50.

The share options were granted on 10 November 2004. The fair value of the options determined at the date of grant using the Black-scholes pricing model were HK$0.6885 per option.

The following assumptions were used to calculate the fair value of share options:

	10 November 2004
Market price on date of grant	HK$2.50
Exercise price	HK$2.50
Expected vesting period	4 years
Expected volatility	39%
Expected dividend yield	2.5%
Risk free rate	2.48%

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 1.67 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

23. ACQUISITION OF SUBSIDIARIES

On 1 January 2005, the Group subscribed for 60% equity interests in Artm Technology Co., Ltd., whose name was changed to SinoCom – Artm Technology Co., Ltd. on 25 January 2005, at a cash consideration of HK$1,415,100. This transaction has been accounted for using the purchase method of accounting.

On 21 November 2005, the Group acquired 55% of the equity interest in SinoCom Shensoft for cash consideration of HK$12,474,810. This transaction has been accounted for using the purchase method of accounting.

The net assets acquired in the transaction, and the goodwill arising, are as follows:

SinoCom-Artm Technology Co., Ltd.

	Acquiree's carrying amount before acquisition *HK$*
Net assets acquired:	
Property, plant and equipment	584,260
Trade receivables	1,894,839
Bank and cash balances	1,676,538
Trade and other payable	(2,642,479)
Other tax payable	(74,300)
	1,438,858
Minority interest	(575,543)
Goodwill	551,785
Total consideration, satisfied by cash	1,415,100
Net cash inflow arising on acquisition:	
Cash consideration paid	(1,415,100)
Cash and cash equivalents acquired	1,676,538
	261,438

23. ACQUISITION OF SUBSIDIARIES (CONTINUED)

SinoCom-Artm Technology Co., Ltd. (continued)

In the opinion of directors, the carrying amounts of acquired net assets approximate to their fair value.

The goodwill arising on the acquisition of SinoCom – Artm Technology Co., Ltd. is attributable to the anticipated profitability of the distribution of the Group's service in the new markets and the anticipated future operating synergies from the acquisition.

SinoCom – Artm Technology Co., Ltd. contributed HK$10.81 million to the Group's revenue and HK$1.51 million to the Group's profit before taxation for the period between the date of acquisition and the balance sheet date.

SinoCom Shensoft Holdings (BVI) Limited

	Acquiree's carrying amount before acquisition *HK$*
Net assets acquired:	
Property, plant and equipment	1,620,045
Trade and other current assets	12,059,827
Bank and cash balances	13,596,494
Trade and other payables	(13,731,260)
Bank loan	(825,201)
Income tax payable	(471,165)
	12,248,740
Minority interest	(5,511,933)
Goodwill	5,738,003
Total consideration, satisfied by cash	12,474,810
Net cash inflow arising on acquisition:	
Cash consideration paid	(12,474,810)
Cash and cash equivalents acquired	13,596,494
	1,121,684

23. ACQUISITION OF SUBSIDIARIES (CONTINUED)

SinoCom Shensoft Holdings (BVI) Limited (continued)

In the opinion of directors, the carrying amounts of acquired net assets approximate to their fair value.

The goodwill arising on the acquisition of SinoCom Shensoft Holdings (BVI) Limited is attributable to the anticipated profitability of the distribution of the Group's outsourcing software developments services and technical support services.

Sinocom Shensoft Holdings (BVI) Limited contributed HK$3.7 million to the Group's revenue and a loss of HK$0.11 million to the Group's profit before taxation for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2005, total group revenue for the period would have been HK$36.81 million, and profit before taxation for the year would have been HK$0.67 million. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2005, nor is intended to be a projection of future results.

24. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	31/12/2005 ***HK$***	31/12/2004 *HK$*
Bank balances, deposits and cash comprises:		
Bank fixed deposit	**19,999,000**	–
Other bank balances and cash	**263,945,864**	247,305,655
	283,944,864	247,305,655

In December 2005, a subsidiary, SinoCom Beijing, deposited HK$19,999,000 with a bank at an annual interest rate of 3.2%. The fixed deposits is due within 25 days.

25. 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:

	2005 HK$	2004 HK$
Within one year	**17,593,284**	9,167,283
In the second to fifth year inclusive	**24,990,019**	10,147,062
	42,583,303	19,314,345

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

26. RETIREMENT BENEFIT SCHEMES

The employees of subsidiaries registered in PRC are members of the pension scheme operated by the PRC local government. Those PRC subsidiaries are 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 of the pension scheme is the required contributions under the pension scheme.

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

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

	2005 HK$	2004 HK$
Retirement benefit contributions made during the year	**6,895,166**	4,103,610

27. EVENTS AFTER THE BALANCE SHEET DATE

On 14 March 2006, SinoCom BVI, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Mr. Jiang Xiufeng pursuant to which SinoCom BVI has conditionally agreed to acquire from Mr. Jiang Xiufeng a 22% equity interest in Beijing Jbridge Information Technology Co., Ltd. ("Beijing Jbridge"), for a consideration of RMB6,600,000 (equivalent to HK$6,346,154) to be satisfied in cash.

On 16 March 2006, SinoCom BVI entered into a sale and purchase agreement with Beijing Jbridge and 株式會社清華綜合研究所, pursuant to which SinoCom BVI has conditionally agreed to acquire from 株式會社清華綜合研究所 a 31% equity interest in Beijing Jbridge for a consideration of RMB9,300,000 (equivalent to HK$8,942,308) to be satisfied in cash.

Upon completion of the acquisitions, SinoCom BVI will be holding a 53% equity interest in Beijing Jbridge and Beijing Jbridge will become a non-wholly owned subsidiary of the Company.

28. RELATED PARTY TRANSACTION

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	Year ended 31/12/2005	Year ended 31/12/2004
	HK$	*HK$*
Short-term benefits	**10,634,850**	11,682,455
Share-based payments	**827,252**	201,769
	11,462,102	11,884,224

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