NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

1. GENERAL

The Company is a public limited liability company incorporated in the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited from 30 April 2004. 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 2681, Grand Cayman, KY1-1111 Cayman Islands. The Group is principally engaged in the provision of outsourcing software development services and technical support services.

The functional currency of the Company is Renminbi. The consolidated financial statements are presented in Hong Kong dollars, which is different from the functional currency of the Company because the directors of the Company consider this is more appropriate in view of its place of listing.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants, which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs has had no material effect on how the results and financial position for the current or prior accounting periods are prepared and presented. Accordingly, no prior year adjustment has been required.

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact to the results and the financial position of the Group.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC)-Int 8	Scope of HKFRS 2[4]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[5]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC)-Int 11	HKFRS 2: Group and Treasury Share Transactions[7]
HK(IFRIC)-Int 12	Service Concession Arrangement[8]

[1] *Effective for annual periods beginning on or after 1 January 2007*
[2] *Effective for annual periods beginning on or after 1 January 2009*
[3] *Effective for annual periods beginning on or after 1 March 2006*
[4] *Effective for annual periods beginning on or after 1 May 2006*
[5] *Effective for annual periods beginning on or after 1 June 2006*
[6] *Effective for annual periods beginning on or after 1 November 2006*
[7] *Effective for annual periods beginning on or after 1 March 2007*
[8] *Effective for annual periods beginning on or after 1 January 2008*

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 except that a subsidiary has not been consolidated as detailed in note 18. In addition, the consolidated 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 entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

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 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 in the net assets consist of the amount of those interests at the date of the original business combination 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 that meet the conditions for recognition under HKFRS 3 are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contigent liabilities exceeds the cost of the business combination, the excess is recogised immediately in profit or loss.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

For acquisition of additional equity interest in a subsidiary, goodwill is determined as the difference between the fair value of the consideration and the Group's additional interest in the book value of net assets acquired at the date of acquisition.

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates (Continued)

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Revenue from provision of outsourcing software development services and technical support services is recognised when the services are provided.

Interest income from a financial asset 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.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency 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 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 recognised in profit or loss in the period in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Borrowing costs

All borrowing costs are recognised as and included in interest expenses on bank borrowings within five years in the consolidated income statement in the period 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 profit as reported in the consolidated income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or 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 consolidated 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.

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 realised. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Plant and equipment

Plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the assets. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Impairment losses (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible 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, 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 in prior years. A reversal of an impairment loss is recognised as income immediately.

Retirement benefits costs

Payments to defined contribution retirement benefits plans are charged as an expense when employees have rendered service entitling them to the contribution.

Leasing

Leases 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 balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are mainly other deposits, trade and other receivables, amounts due from related parties and bank balances and cash.

Other deposits, trade and other receivables, amounts due from related parties and bank balances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, trade and other receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below:

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Financial liabilities

The Group's financial liabilities including trade and other payables, amount due to a related party and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Share-based payment transactions – Equity-settled share-based payment transactions

Share options granted to employees

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, with a corresponding increase in equity (share option reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss, with a corresponding adjustment to share option reserve.

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 be transferred to retained earnings.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 3, management has made various estimates based on past experience, expectations of the future and other information. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

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. As at 31 December 2006, the carrying amount of goodwill is HKD$7,956,000. Details of the recoverable amount calculation are disclosed in Note 16.

5. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

The Group's major financial instruments include trade and other receivables, bank balances and cash, trade and other payables and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policy on how to mitigate the risk is set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

As at 31 December 2006, the Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2006 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 Group reviews the recoverable amount of each individual trade debt each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the conunterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group's concentration of credit risk by geographical locations is mainly in the PRC and Japan.

5. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (Continued)

Currency risk

Several subsidiaries of the Company have foreign currency sales, which expose the Group to foreign currency risk. Approximately 70% of the Group's sales are denominated in currencies other than the functional currency of the relevant group entities. 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. REVENUE

	2006	2005
	HK$'000	HK$'000
Outsourcing software development services	**363,818**	243,328
Technical support services	**29,757**	18,989
	393,575	262,317
Business tax	**(16,142)**	(11,660)
	377,433	250,657

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

The Group is principally engaged in the provision of outsourcing software development services and technical support services. For the year ended 31 December 2006, 92.44% (2005: 92.76%) of revenue are generated from outsourcing software development service, and accordingly, no business segment analysis is presented.

For management purpose, the Group is currently engaged in the provision of service in two markets, the 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 geographical market, irrespective of the origin of the services:

Year ended 31 December 2006

	PRC	**Japan**	**Consolidated**
	HK$'000	HK$'000	HK$'000
Revenue	40,601	336,832	377,433
Cost of services	(23,769)	(195,779)	(219,548)
Segment results	16,832	141,053	157,885
Share of loss of an associate	(104)	–	(104)
Unallocated other income			4,703
Unallocated corporate expenses			(76,353)
Interest expenses on bank borrowings within five years			(26)
Profit before taxation			86,105
Taxation			(11,668)
Profit for the year			74,437

	PRC	**Japan**	**Consolidated**
	HK$'000	HK$'000	HK$'000
Balance sheet			
Segment assets	54,587	55,565	110,152
Interest in an associate	1,968	–	1,968
Unallocated corporate assets			327,056
			439,176
Segment liabilities	22,752	15,812	38,564
Unallocated corporate liabilities			7,586
			46,150

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

	PRC	Japan	Consolidated
	HK$'000	HK$'000	HK$'000
Other information			
Additions to plant and equipment	8,210	26	8,236
Depreciation	3,930	245	4,175
Loss on disposal of plant and equipment	21	–	21

Year ended 31 December 2005

	PRC	Japan	Consolidated
	HK$'000	HK$'000	HK$'000
Revenue	26,856	223,801	250,657
Cost of services	(16,618)	(107,338)	(123,956)
Segment results	10,238	116,463	126,701
Unallocated other income			3,304
Unallocated corporate expenses			(60,388)
Profit before taxation			69,617
Taxation			(9,036)
Profit for the year			60,581

	PRC	Japan	Consolidated
	HK$'000	HK$'000	HK$'000
Balance sheet			
Segment assets	29,144	33,220	62,364
Unallocated corporate assets			290,614
			352,978
Segment liabilities	19,171	9,959	29,130
Unallocated corporate liabilities			4,550
			33,680

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

	PRC	Japan	Consolidated
	HK$'000	HK$'000	HK$'000
Other information			
Additions to plant and equipment	3,972	1,848	5,820
Depreciation	2,718	266	2,984
Loss on disposal of plant and equipment	43	–	43

8. OTHER INCOME

	2006	2005
	HK$'000	HK$'000
Interest income	**3,398**	2,439
Government subsidies	**195**	186
Others	**1,110**	679
	4,703	3,304

9. TAXATION

	2006	2005
	HK$'000	HK$'000
PRC enterprise income tax	**9,345**	8,312
Japan income tax	**2,323**	724
	11,668	9,036

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% ("Favourable tax rate") 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.

9. TAXATION (Continued)

SinoCom-Artm Technology Limited ("SinoCom-Artm Technology"), a subsidiary of the Company, is recognised 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%.

Shensoft Computer Technology (Shanghai) Company Limited ("Shensoft Shanghai"), a subsidiary of the Company, is recognised 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 Group are eligible for tax holidays and concession and were exempted from PRC income taxes as follows:

(a) Exemption for PRC income tax for two or three years starting from the respective first profit-making year, and

(b) Followed by a 50% reduction in the next three years.

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group had no significant assessable profits in Hong Kong for either year.

Taxation arising in Japan is calculated at a progressive statutory rate of 22% on the portion of taxable income not exceeding JPY 8,000,000 (equivalent to approximately HK$523,000, 2005: HK$528,000) and 30% on the portion of taxable income in excess of JPY 8,000,000.

The income tax expenses for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2006 **HK$'000**	2005 HK$'000
Profit before taxation	**86,105**	69,617
Taxation at PRC income tax rate at 15%	**12,916**	10,443
Tax effect of expenses that are not deductible in determining taxable profit	**45**	19
Effect of Favorable tax rate of SinoCom Beijing	**(4,739)**	(4,035)
Effect of different tax rates of subsidiaries operating in other jurisdiction	**3,446**	2,609
Tax expense	**11,668**	9,036

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

10. PROFIT FOR THE YEAR

Profit for the year is arrived at after charging:

	2006 HK$'000	2005 HK$'000
Auditors' remuneration	**1,547**	1,268
Net foreign exchange loss	**10,222**	20,906
Depreciation of plant and equipment	**4,175**	2,984
Loss on disposal of plant and equipment	**21**	43
Staff costs:		
Directors' emoluments	**7,896**	4,400
Other staff costs		
– Salaries and other benefits	**180,458**	101,905
– Share based payments expense	**10,709**	4,078
– Retirement benefits schemes contributions	**12,760**	6,829
	211,823	117,212

11. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the four (2005: five) directors were as follows:

	Wang Zhiqiang HK$'000	Wang Xubing HK$'000	Siu Kwokleung HK$'000	Jun Otaka HK$'000 (Note)	Shi Chongming HK$'000	Total HK$'000
2006						
Salaries and other benefits	**2,515**	**2,515**	**1,169**	**–**	**1,591**	**7,790**
Retirements benefits scheme contribution	**19**	**19**	**–**	**–**	**68**	**106**
Total emoluments	**2,534**	**2,534**	**1,169**	**–**	**1,659**	**7,896**
2005						
Salaries and other benefits	1,190	1,190	916	57	981	4,334
Retirements benefits scheme contribution	16	16	–	–	34	66
Total emoluments	1,206	1,206	916	57	1,015	4,400

Note: Resigned as director during the year ended 31 December 2005.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2005: four) were directors of the Company whose emoluments are included in the disclosure in note 11 above. The emoluments of the remaining one (2005: one) individual were as follows:

	2006 HK$'000	2005 HK$'000
Salaries and other benefits	**761**	572
Retirement benefits schemes contributions	**78**	32
	839	604

13. DIVIDEND

On 19 May 2006, a final dividend of HK11 cents per share (total dividend HK$29,718,000) in respect of the financial year ended 31 December 2005 was paid to the shareholders. On 6 May 2005, a final dividend of HK10 cents per share (total dividend HK$26,590,000) in respect of the financial year ended 31 December 2004 was paid to the shareholders.

In respect of the financial year ended 31 December 2006, the directors propose that a dividend of HK3.7 cents per share. This dividend is subject to approval by shareholders at the Annual General Meeting.

14. EARNINGS PER SHARE

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

	2006	2005
	HK$'000	HK$'000
Earnings		
Profit for the year attributable to equity holders of the Company	**73,308**	60,012

Number of shares

	2006	2005
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,089,697**	1,073,243
Effect of dilutive potential ordinary shares:		
Share options	**30,687**	25,137
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,120,384**	1,098,380

The weighted average number of ordinary shares for the purpose of basic earnings per share has been adjusted for the Company's share subdivision in May 2006, details of which are set out in note 25.

15. PLANT AND EQUIPMENT

	Office equipment HK$'000	Motor vehicles HK$'000	Leasehold improvements HK$'000	Total HK$'000
COST				
At 1 January 2005	9,508	2,427	2,093	14,028
Exchange realignments	50	(25)	40	65
Acquisition of subsidiaries	1,761	187	256	2,204
Additions	2,546	–	1,070	3,616
Disposals	(512)	–	–	(512)
At 31 December 2005	13,353	2,589	3,459	19,401
Exchange realignments	555	102	121	778
Additions	5,083	1,476	1,677	8,236
Disposals	(496)	–	(1,345)	(1,841)
At 31 December 2006	18,495	4,167	3,912	26,574
ACCUMULATED DEPRECIATION				
At 1 January 2005	3,646	1,321	947	5,914
Exchange realignments	(15)	(15)	18	(12)
Provided for the year	1,956	312	716	2,984
Disposals	(452)	–	–	(452)
At 31 December 2005	5,135	1,618	1,681	8,434
Exchange realignments	224	51	49	324
Provided for the year	2,630	446	1,099	4,175
Disposals	(351)	–	(1,346)	(1,697)
At 31 December 2006	7,638	2,115	1,483	11,236
CARRYING VALUES				
At 31 December 2006	10,857	2,052	2,429	15,338
At 31 December 2005	8,218	971	1,778	10,967

The above items of plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Office equipment	20%
Motor vehicles	20%
Leasehold improvements	Over the shorter of the term of the lease, or 33 1/3% – 50%

16. GOODWILL

	HK$'000
Cost	
At 1 January 2005	–
Arising on acquisition of subsidiaries (note 26)	6,290
At 31 December 2005	6,290
Exchange adjustments	66
Arising on acquisition of additional interest in a subsidiary (note 28)	1,600
At 31 December 2006	7,956

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$'000
Outsourcing software service	
SinoCom-Artm Technology	2,218
SinoCom Shensoft	5,738
	7,956

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. During the year ended 31 December 2006, the directors of the Company determine that there are no impairments of any of its CGUs containing goodwill.

The recoverable amounts of these CGUs have been determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a one-year period, and a discount rate of 18%. Cash flows beyond one-year period are extrapolated using growth rates of 13% over the projected period of five years. These growth rates are based on the relevant industry growth forecasts and do not exceed the average long-term growth rates for the relevant industries. Other key assumptions for the value in use calculations and the budgeted gross margins, which are determined based on the CGUs past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amounts of the CGUs to exceed the aggregate recoverable amount of these CGUs.

17. INTERESTS IN AN ASSOCIATE

	2006 HK$'000
Cost of investment in an unlisted associate	2,072
Share of post-acquisition loss	(104)
	1,968

As at 31 December 2006, the Group had interests in the following associate:

Name of entity	Form of business structure	Country of incorporation and principal place of operation	Class of capital held	Proportion of nominal value of registered capital held by the Group %	Proportion of voting power held %	Principal activity
DIR System Technology (Beijing) Co., Ltd.	Incorporated	PRC	Registered capital	30	30	Software outsourcing

The summarised financial information in respect of the Group's associate is set out below:

	2006 HK$'000
Total assets	6,624
Total liabilities	(65)
Net assets	6,559
Group's share of net assets of the associate	1,968
Revenue	491
Loss for the year	(347)
Group's share of loss of the associate for the year	(104)

18. INVESTMENT IN AN UNCONSOLIDATED SUBSIDIARY/AMOUNT DUE FROM AN UNCONSOLIDATED SUBSIDIARY

	2006 **HK$'000**	2005 HK$'000
Cost of unlisted investment in a subsidiary	**8,015**	–
Amount due from a subsidiary	**121**	–

In August 2006, the Group entered into a share transfer agreement with an independent third party to acquire a 75% equity interest in MIS Co., Limited ("MIS"), which is incorporated in Japan and principally engaged in the provision of software integration, integrated solutions and the distribution of software products, for an aggregate cash consideration of YEN120,000,000 (equivalent to approximately HK$8,015,000). Further details of MIS are set out in note 34.

The directors of the Company are in the process of reviewing and finalising the accounting records of the subsidiary since its acquisition in August 2006. In the absence of reliable financial information regarding the subsidiary, the directors have neither accounted for the acquisition using the purchase method of accounting nor consolidated the post-acquisition results and financial position of the subsidiary in the consolidated financial statements.

The amount due from MIS is unsecured, interest-free and repayable within one year.

19. OTHER DEPOSITS

Other deposits represent rental deposits paid under operating leases receivable after one year. The fair value of the Group's other deposits approximated to the corresponding carrying amounts.

20. TRADE AND OTHER RECEIVABLES

	2006 **HK$'000**	2005 HK$'000
Trade receivables	**64,545**	40,828
Other debtors	**7,730**	5,754
Deposit previously made for acquisition of an investment (note 29)	**1,792**	–
Other deposits	**8,156**	1,212
Prepayments	**2,493**	1,107
Total trade and other receivables	**84,716**	48,901

20. TRADE AND OTHER RECEIVABLES (Continued)

The Group allows an average credit period of 30-45 days to its trade customers. The following is an aged analysis of trade receivables at the balance sheet date based on invoice date:

	2006 HK$'000	2005 HK$'000
0-30 days	46,991	32,767
31-60 days	10,250	4,069
61-90 days	3,434	3,021
91-180 days	3,403	854
Over 180 days	467	117
	64,545	40,828

The fair value of the Group's trade and other receivables approximated to the corresponding carrying amounts.

21. AMOUNTS DUE FROM/TO RELATED PARTIES

	2006 HK$'000	2005 HK$'000
Amount due from an associate	127	–
Amount due from a director (Note)	231	231
Amount due from a shareholder	3	3
	361	234
Amount due to a shareholder	12	12

Note: The maximum amount outstanding during the year is HK$231,000 (2005: HK$231,000).

The amounts due from an associate, a director and a shareholder are unsecured, interest-free and repayable within one year. The amount due to a shareholder is unsecured, interest-free and repayable on demand. The fair value of these balances approximated the corresponding carrying amounts.

22. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits and carry interest at effective interest rates ranging from 0.3% to 4.5% per annum. The fair value of these assets approximated to the corresponding carrying amounts.

23. TRADE AND OTHER PAYABLES

	2006	2005
	HK$'000	HK$'000
Trade creditors	**1,643**	662
Wages and salaries payable	**23,136**	18,401
Accruals	**3,209**	1,871
Other tax payables	**8,900**	6,085
Other payables	**2,166**	2,099
	39,054	29,118

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

The following is an aged analysis of accounts payables at the balance sheet date based on invoice date:

	2006	2005
	HK$'000	HK$'000
0-30 days	**1,129**	618
31-60 days	**502**	7
61-90 days	**12**	8
91-180 days	–	29
	1,643	662

The fair value of the Group's trade and other payables and accrued liabilities approximated to the corresponding carrying amounts.

24. BANK BORROWINGS

	2006 HK$'000	2005 HK$'000
Unsecured bank loans	**520**	823

The unsecured bank loans are repayable as follows:

	2006 HK$'000	2005 HK$'000
On demand or within one year:	**294**	297
In the second year	**226**	297
In the third year	**–**	229
	520	823
Less: Amount due within one year shown under current liabilities	**294**	297
	226	526

The carrying amounts of the Group's borrowings are denominated in JPY. The range of effective interest rates (which are also equal to contracted interested rates) on the Group's borrowings are as follows:

	2006	2005
Fixed-rate bank loans	**2%-2.5% per annum**	2%-2.5% per annum

The fair value of the Group's borrowings approximated to the corresponding carrying amounts.

25. SHARE CAPITAL

	Number of shares '000	HK$'000
Authorised:		
Ordinary shares of HK$0.10 each, at 1 January 2005 and 31 December 2005	1,000,000	100,000
Subdivision of HK$0.10 share each into HK$0.025 share each (Note i)	3,000,000	–
Ordinary shares of HK$0.025 at 31 December 2006	4,000,000	100,000
Issued and fully paid:		
At 1 January 2005	265,891	26,589
Exercise of share options (Note ii)	4,277	428
At 31 December 2005	270,168	27,017
Subdivision of HK$0.10 share each into HK$0.025 share each (Note i)	810,503	–
	1,080,671	27,017
Exercise of share options (Note iii)	16,008	400
At 31 December 2006	1,096,679	27,417

Notes:

(i) At an extraordinary general meeting held on 10 May 2006, the shareholders of the Company has approved the subdivision of each of the existing issued and unissued shares of HK$0.10 each in the share capital of the Company into four shares of HK$0.025 each (the "Share Subdivision").

(ii) Share options to subscribe for 4,277,000 ordinary shares of HK$0.10 each were exercised during 2005 at HK$2.50 per share (see note 26).

(iii) Subsequent to the Share Subdivision, share options to subscribe for 16,008,000 ordinary shares of HK$0.025 each were exercised during the year at HK$0.625 per share (see note 26).

26. 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 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 2006, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 56,184,000 (as adjusted after Share Subdivision) (2005: 13,128,000), representing 5.12% (2005: 4.86%) 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 follows:

Date of grant	**Exercisable period**	**Exercise price**	**Exercise price as adjusted after Share Subdivision**
10/11/2004	10/11/2004-09/11/2014	HK$2.50	HK$0.625
24/01/2006	24/01/2006-23/01/2016	HK$5.55	HK$1.3875

26. SHARE OPTION SCHEME (Continued)

Details of the share options outstanding are as below:

	Number of share options
Outstanding at 1 January 2005	17,730,000
Forfeited during the year	(325,000)
Exercised during the year	(4,277,000)
Outstanding at 31 December 2005	13,128,000
Granted during the year	5,130,000
Change upon Share Subdivision (Note)	54,774,000
Forfeited during the year (as adjusted after Share Subdivision)	(840,000)
Exercised during the year (as adjusted after Share Subdivision)	(16,008,000)
Outstanding at 31 December 2006	56,184,000

Note: As a result of the Share Subdivision in May 2006, the terms of the then outstanding share options are adjusted according to rules of the share option scheme as follows:

(i) Each option to subscribe for one share shall be adjusted to an option to subscribe for four shares;

(ii) The existing subscription price of HK$2.50 payable for each share to be issued upon the exercise of the options outstanding as at 1 January 2006 shall be adjusted such that the subscription price payable for each share to be issued upon the exercise of an option would be HK$0.625; and

(iii) The existing subscription price of HK$5.55 payable for each share to be issued upon the exercise of the options granted in January 2006 shall be adjusted such that the subscription price payable for each share to be issued upon the exercise of an option would be HK$1.3875.

26. SHARE OPTION SCHEME (Continued)

The options granted on 10 November 2004 may be exercisable during the period from the first anniversary of the date of grant, being 10 November 2004 to 9 November 2014 (both days inclusive) which is also the vesting period, 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 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 up to and including 9 November 2014; and

(e) the remaining 25% of the opinion will be exercisable at any time on or after the third anniversary of the First Semi-anniversary up to and including 9 November 2014.

The options granted on 24 January 2006 may be exercisable during the period from the first anniversary of the date of grant, being 24 January 2007 to 23 January 2016 (both days inclusive) which is also the vesting period, in the following manner:

(a) no part of the options may be exercisable prior to the first anniversary of the date of grant;

(b) 25% of the options will be exercisable at any time on or after the first anniversary of the date of grant up to and including 23 January 2016;

(c) a further 25% of the options will be exercisable at any time on or after the second anniversary of the date of grant up to and including 23 January 2016;

(d) another 25% of the options will be exercisable at any time on or after the third anniversary of the date of grant up to and including 23 January 2016; and

(e) the remaining 25% of the options will be exercisable at any time on or after the forth anniversary of the date of grant up to and including 23 January 2016.

1,844,000 (as adjusted after Share Subdivision) share options are exercisable at 31 December 2006 (2005: 130,500). The closing price of the Company's shares immediately before 10 November 2004 and 24 January 2006, the date of grant of options, was HK$2.50 and HK$5.55 respectively.

26. SHARE OPTION SCHEME (Continued)

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised in the year ended 31 December 2006 was HK$2.38 (2005: HK$5.50).

The options granted on 10 November 2004 have a fair value of HK$0.689 per option which was determined at the date of grant using the Black-Scholes pricing model.

The options granted on 24 January 2006 have a fair value of HK$2.13 per option which was determined at the date of grant using the Black-Scholes pricing model.

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

Grant date	**24 January 2006**	10 November 2004
Exercise price	**HK$5.55**	HK$2.50
Expected life	**6.25 years**	4 years
Expected volatility	**44%**	39%
Expected dividend yield	**2.5%**	2.5%
Risk free rate	**4.07%**	2.48%

The original exercise prices of share options granted on 24 January 2006 and 10 November 2004 were adjusted to HK$1.3875 and HK$0.625 respectively, as a result of the Share Subdivision.

Expected volatility was determined by using the historical volatility of the Company's share price since the listing date to the grant dates of share options. 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.

The number of share options granted has been reduced to reflect historical experience of forfeiture of 2% of options granted prior to completion of vesting period and accordingly the share option expense has been adjusted.

The Black-Scholes option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

27. ACQUISITION OF SUBSIDIARIES

On 1 January 2005, the Group subscribed for 60% equity interests in SinoCom-Artm Technology at a cash consideration of HK$1,415,000. This transaction had been accounted for using the purchase method of accounting.

On 21 November 2005, the Group acquired 55% of the equity interest in SinoCom Shensoft Holdings (BVI) Limited ("SinoCom Shensoft") for cash consideration of HK$12,475,000. This transaction had been accounted for using the purchase method of accounting.

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

SinoCom-Artm Technology

	Acquiree's carrying amount before acquisition HK$'000
Net assets acquired:	
Plant and equipment	584
Trade and other receivables	1,895
Bank balances and cash	1,677
Trade and other payables	(2,717)
	1,439
Minority interest	(576)
Goodwill	552
Total consideration, satisfied by cash	1,415
Net cash inflow arising on acquisition	
Cash consideration paid	(1,415)
Cash and cash equivalents acquired	1,677
	262

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

The goodwill arising on the acquisition of SinoCom-Artm Technology was 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.

27. ACQUISITION OF SUBSIDIARIES (Continued)

SinoCom-Artm Technology (Continued)

SinoCom-Artm Technology contributed HK$10,810,000 to the Group's revenue and HK$1,510,000 to the Group's profit before taxation for the period between the date of acquisition and 31 December 2005.

SinoCom Shensoft

	Acquiree's carrying amount before acquisition HK$'000
Net assets acquired:	
Plant and equipment	1,620
Trade and other receivables	12,060
Bank balances and cash	13,597
Trade and other payables	(13,732)
Bank borrowings	(825)
Tax liabilities	(471)
	12,249
Minority interest	(5,512)
Goodwill	5,738
Total consideration, satisfied by cash	12,475
Net cash inflow arising on acquisition:	
Cash consideration paid	(12,475)
Cash and cash equivalents acquired	13,597
	1,122

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

The goodwill arising on the acquisition of SinoCom Shensoft was attributable to the anticipated profitability of the distribution of the Group's outsourcing software developments services and technical support services.

SinoCom Shensoft contributed HK$3,700,000 to the Group's revenue and a loss of HK$110,000 to the Group's profit before taxation for the period between the date of acquisition and 31 December 2005.

27. ACQUISITION OF SUBSIDIARIES (Continued)

SinoCom Shensoft (Continued)

If the acquisitions had been completed on 1 January 2005, total group revenue and profit for the year ended 31 December 2005 would have been HK$272,927,000 and HK$61,307,000 respectively. The proforma information was for illustrative purposes only and was 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 was intended to be a projection of future results.

28. ACQUISITION OF ADDITIONAL INTEREST IN A SUBSIDIARY

In August 2006, the Group entered into an agreement to acquire a 20% further equity interest in an existing non-wholly subsidiary, SinoCom-Artm Technology, which is incorporated in the PRC and principally engaged in the provision of outsourcing software development and technical support services, from the minority owners of the subsidiary for a cash consideration of RMB2,400,000 (equivalent to approximately HK$2,336,000). In the opinion of directors, the carrying amounts of acquired net assets approximate to their fair value and the amount of goodwill arising as a result of the acquisition was HK$1,600,000.

29. CONTINGENT LIABILITIES

On 14 March 2006, SinoCom Holdings (BVI) Limited ("SinoCom BVI"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement (the "Agreement") with Mr. Jiang Xiufeng ("Jiang") pursuant to which SinoCom BVI has conditionally agreed to acquired from Jiang a 22% equity interest in Beijing Jbridge Information Technology Co., Ltd. ("Beijing Jbridge"), for a consideration of RMB6,600,000 (equivalent to HK$6,346,000) to be satisfied in cash. A deposit of RMB1,800,000 (equivalent to HK$1,792,000) was paid by SinoCom BVI to Jiang in relation to the acquisition.

The completion of the acquisition was conditional upon satisfaction of certain precedent conditions which include:

(a) completion of due diligence on Beijing Jbridge by SinoCom BVI within one month from the date of the Agreement;

(b) the approval of the transfer of the 22% equity interest in Beijing Jbridge pursuant to the Acquisition having been granted by the Ministry of Commerce of the PRC; and

(c) the registration of the transfer of the 22% equity interest in Beijing Jbridge pursuant to the Acquisition having been completed with the State Administration for Industry and Commerce of the PRC.

29. CONTINGENT LIABILITIES (Continued)

According to the Agreement, condition (c) above was required to be fulfilled on or before 14 September 2006. In the absence of any supplemental agreement entered into between the parties to agree otherwise, the Agreement would be automatically terminated.

On 15 September 2006, SinoCom BVI informed Jiang for the termination of the Agreement since, among others, condition (c) was not fulfilled. Jiang did not accept and applied an arbitration to the China International Economic and Trade Arbitration Commission against SinoCom BVI for specific performance of the Agreement in November 2006. Jiang requested SinoCom BVI to pay him the remaining acquisition consideration amounting to RMB4,800,000 (equivalent to HK$4,778,000) and legal costs and other expenses incurred amounting to approximately RMB600,000 (equivalent to HK$597,000).

In January 2007, SinoCom BVI counter-claimed Jiang for the deposits paid, related interest and legal costs incurred. The directors of the Company do not consider there will be an unfavourable judgement against SinoCom BVI in the arbitration and therefore no provision has been made for the deposit paid and the amounts claimed by Jiang in the consolidated financial statements. In the opinion of the directors of the Company, the deposit paid is recoverable in 2007 and accordingly classified under current assets.

30. OPERATING LEASE COMMITMENTS

The Group as lessee

	2006 **HK$'000**	2005 HK$'000
Minimum lease payments paid under operating leases during the year in respect of office premises	**23,389**	13,243

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

	2006 **HK$'000**	2005 HK$'000
Within one year	**26,298**	17,593
In the second to fifth year inclusive	**31,811**	24,990
	58,109	42,583

Operating lease payments represent rentals payable by the Group for its office premises. Leases are negotiated and rentals are fixed for lease term from one to three years.

31. RETIREMENT BENEFITS SCHEMES

The employees of subsidiaries registered in the 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.

31. RETIREMENT BENEFITS SCHEMES (Continued)

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

	2006 **HK$'000**	2005 HK$'000
Retirement benefits contributions made during the year	**12,866**	6,895

32. RELATED PARTY TRANSACTION

During the year ended 31 December 2006, the Group received revenue from outsourcing software development services of HK$121,000 (2005: Nil) from a subsidiary not consolidated as detailed in note 18. The Group also received revenue from technical support services of HK$556,000 (2005: Nil) from an associate. In addition, details of balances with related parties at the balance sheet date are set out in the consolidated balance sheet, notes 18 and 21.

Compensation of key management personnel

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

	2006 **HK$'000**	2005 HK$'000
Salaries and other benefits	**15,109**	10,635
Retirement benefits schemes contributions	**767**	827
	15,876	11,462

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.

33. POST BALANCE SHEET EVENT

On 8 February 2007, the Group entered into an agreement to acquire a total of 45% further equity interest in an existing non-wholly owned subsidiary, SinoCom Shensoft, which is incorporated in the British Virgin Islands and principally engaged in investment holding, from the minority owners of SinoCom Shensoft for a cash consideration of RMB5,400,000 (equivalent to HK$5,375,000). SinoCom Shensoft has two wholly-owned subsidiaries Shensoft Shanghai and Shensoft Computer Technology Co., Limited, both of which are principally engaged in provision of outsourcing software development and technical support services. The transaction has been completed on 15 February 2007 and SinoCom Shensoft became a wholly-owned subsidiary of the Company.

34. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2006 are as follows:

Name of subsidiary	Place of incorporation and operation	Class of capital held	Proportion ownership interest held by the Company Directly	Indirectly	Principal activities
SinoCom BVI	British Virgin Islands	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
SinoCom Beijing	PRC*	Registered capital US$6,040,800	–	100%	Provision of outsourcing software development and technical support services
SinoCom Innovative Technology Software Limited	PRC*	Registered capital US$370,000	–	89.16%	Provision of outsourcing software development and technical support services
SinoCom-Artm Technology	PRC*	Registered capital RMB2,500,000	–	80%	Provision of outsourcing software development and technical support services

34. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation and operation	Class of capital held	Proportion ownership interest held by the Company Directly	Indirectly	Principal activities
SinoCom Japan High Technology Software Limited	Japan*	Ordinary shares JPY30,000,000	–	89.16%	Provision of outsourcing software development and technical support services
MIS (Note 1)	Japan*	Ordinary shares JPY50,000,000	–	75%	Provision of outsourcing software development and technical support services
Dalian SinoCom High Technology Software Limited	PRC*	Registered capital HK$3,200,000	–	85.52%	Provision of outsourcing software development and technical support services
Shensoft Shanghai	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
SinoCom Shensoft (Note 2)	British Virgin Islands	Ordinary shares US$500,000	–	55%	Investment holding

* The form of business structure is limited company.

34. PRINCIPAL SUBSIDIARIES (Continued)

Note 1: MIS is an unconsolidated subsidiary as set out in note 18.

Note 2: After the completion of the share transfer and subscription agreement on 21 November 2005, SinoCom Shensoft is held as to 55% by 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 shareholders of Shensoft taking into account, among others, the formula for determining the exercise price and the likely retirement age of the shareholders of Shensoft.

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.

In February 2007, the Group acquired the remaining 45% of SinoCom Shensoft as detailed in note 33. The put option has then been forfeited accordingly.

Note 3: None of the subsidiaries had issued any debt securities at 31 December 2006.

Note 4: The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.