



SinoCom

SinoCom Software Group Limited

中訊軟件集團股份有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0299)



Interim Report

2007

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CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of the Company, I am delighted to present the unaudited interim results of the company and its subsidiary companies (collectively as the "Group") for the six months ended 30 June 2007 (the "Period").

Steady growth in operation profit

Every year, the Group grows in both turnover and profit. It is no exception this year. Our business goal has been achieved with turnover reaching HK\$258,006,000 in the first half of the financial year, representing 57.9% increase over the same period last year. China's software outsourcing service market is expanding vigorously, and is the largest software outsourcing country barring India. Benefiting from the natural growth of the market, and also with its long and close relationship with customers and high standard of service, SinoCom is able to maintain a sustaining outstanding performance.

Japan continued to be the Group's major business market. During the Period, revenue derived from the Japanese market increased by 61.9% compared to last year. As the Japanese economy continued to grow, its business would have a further demand on outsourcing software development, which is a favourable factor of the Company.

To promote business to foreign enterprises in the country to increase revenue gain in RMB was the Company's new business expansion target during the Period and has progressed well. In the first half of the year, SinoCom has signed new cooperation agreements on software outsourcing with the top 500 enterprises in the world like IBM China and HP China, etc., and the projects have been assigned to related departments. It is believed that there will be a great potential to develop the market.

Focus on governance and nurture more talents

For an enterprise to grow in strength, only focusing on turnover growth is not enough. The Group shall raise its governance standard unceasingly and to nurture more talents for the company in order to facilitate a long term growth of the business, and help consolidate the Group's development footsteps.

The Group is active in intensifying its human capitals. It has been recruiting talents by various effective ways each year. Up to the end of June this year, the number of employees in the Group has been increased to 3,021. Among them, more and more senior and management level professionals are hired. Employees training programs have also increased. By optimizing the people structure, the Group intends to strengthen its internal management, and improve productivity. Recently established training organization by the Group will solidify the foundation for a stable and sustainable future development.

CHAIRMAN'S STATEMENT

In the rest of the financial year, it is prospected to have vigorous fluctuation in the international financial market. The risk in investing globally will be increased. Fortunately, the fundamental factors of the global economic environment will still be favorable, especially China. China's economy will keep on expanding on a fast track. Under this favourable situation, the software outsourcing industry will have a bright future.

The Group will move forward to intensify the software outsourcing business in the Japanese market and to raise the position of its business chain in the industry. The Group will make use of its cash on hand advantage to develop European and US software outsourcing market and to enlarge the information technology and software market in China, so as to increase RMB income in a fast rate.

The turnover and number of employees of the Group keeps a balanced growth. This helps to maintain the Company's profitability. As the Group continues to expand, the Board has confidence to lead SinoCom to become one of the most outstanding software service enterprises in the world!

By order of the board

WANG Zhiqiang

Chairman and CEO

Hong Kong, 5 September 2007

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS FOR THE PERIOD

Turnover

Turnover of the Group for the six months ended 30 June, 2007 (the “Period”) amounted to approximately HK\$258,006,000, representing an increase of approximately HK\$94,650,000, or 57.9%, over the same period in 2006. Revenue was derived from outsourcing software development services and from technical support services, which accounted for approximately 95% and 5% of the total revenue respectively. The respective revenue growth in these two areas were 59% and 37% from last year same period. Market segments were divided into Japan and PRC and each accounted for approximately 91% and 9% respectively. Increase in revenue was mainly due to business expansion with the two largest customers, among which one grew by approximately 79% and the other grew by 29% from last year same period. In addition, charge rate structure to a major customer revised from a single rate to blended rates also enhanced the revenue growth.

Gross profit and cost of sales

Gross profit of the Group for the Period amounted to approximately HK\$109,101,000, representing an increase of approximately HK\$39,408,000 over that for the same period in 2006. Gross profit margin was approximately 42.3% which was higher than the industry average but slightly less than that of last year same period by 0.4%. This drop was mainly attributable to foreign exchange impact. Group profit margin before foreign exchange impact was actually a 3.4% increase mainly attributable to the increase in operation efficiency of Beijing headquarters, and of subsidiaries in Shanghai and in Dalian.

Cost of sales increased to approximately HK\$148,905,000, representing an increase of approximately HK\$55,242,000 or 59%. The percentage increment was in line with the revenue growth rate. Actually, the costs were well controlled under a currency inflationary environment in PRC. Average per head salary was marginally below that in same period 2006 because of dilution effect by entry salary level of new entrants. Total labour cost increment was mostly due to headcount increase. Other major increment items were sub-contracting fee, rent and travelling expenses which were directly correlated to business and headcount growth.

Other income

Other income included interest income of approximately HK\$1,331,000 for the Period, which was on the lower side relative to the cash position of the Group. It was due to significant portion of cash was in Japanese Yen on which bank interest rate was low.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating expenses

Operating expenses during the Period increased to approximately HK\$53,933,000, representing an increase of approximately HK\$21,516,000 or 66.4% over the same period in 2006. There was no major increment item except an exchange loss of approximately HK\$16,748,000 was booked when translating monetary assets in Japanese Yen at Period end exchange rate. Last year same period recorded an exchange gain of approximately HK\$1,136,000 classified as other income.

Liquidity, Financial Resources and Gearing Ratio

Net assets

As at 30 June, 2007, the Group recorded total assets of approximately HK\$463,359,000 which were financed by liabilities of HK\$50,392,000, minority interest of HK\$4,069,000 and equity of HK\$408,898,000. The Group's net assets value as at 30 June, 2007 increased by 6.4% to approximately HK\$408,898,000 as compared to approximately HK\$384,334,000 as at 31 December 2006.

Liquidity

The Group had a total cash and bank balances of approximately HK\$322,555,000 as at 30 June 2007 (As at 31 December, 2006: approximately HK\$315,840,000). Bank borrowings of HK\$362,000 was bank loans to Shensoft before its acquisition by the Group. Current ratio was 8.4 times as at 30 June 2007 (As at 31 December 2006: 8.7).

Foreign exchange exposure

The Group generates most of the revenue in Japanese Yen and incurs most of the costs in RMB. Any depreciation of Japanese Yen against RMB will result in decrease in the income of the Group, which will have an adverse impact to the Group's profitability. As at 30 June, 2007, 86% of cash and bank balance was held in Japanese Yen, the Group changed all of its Japanese Yen on hand after Period end when exchange rates against one US dollar bounced back to between 112 to 114 interval from 123 at Period end. At the same time, the Group set up a department to enhance the research and analysis on foreign exchange fluctuation in order to adopt corresponding measurements. There will be obvious improvement in the second half of the year.

MANAGEMENT DISCUSSION AND ANALYSIS

Pledge of Asset

As at 30 June 2007, the Group did not pledge any of its assets to obtain banking facilities nor have any charge on its assets (As at 31 December 2006: Nil).

Contingent Liabilities

Contingent liabilities per note 29 to the consolidated financial statements of the 2006 Annual Report in relation to an arbitration case to which there was no development. The arbitration has been extended to 10 October, 2007. No provision has been made for the arbitration as the management does not consider there will be an unfavourable judgement against the Group.

Major Transaction

On 13 July 2007, SinoCom BVI entered into an agreement with IKEDA TERUO, one of the existing shareholders of MIS, to dispose of a 30% equity interest in MIS for a cash consideration of approximately JPY48,000,000 (equivalent to approximately HK\$3,038,000). On the same day, SinoCom BVI entered into an agreement with Global Risk Systems Japan Limited, an independent third party, to dispose of its remaining 45% equity interest in MIS for a cash consideration of JPY72,000,000 (equivalent to approximately HK\$4,557,000).

Following the completion of the disposal of the subsidiary in August 2007, SinoCom BVI ceases to have any interest in MIS.

OUTLOOK

Momentum of demand from Japan continues to be very strong. There would be business as long as there are resources available to handle the software development work. Human resources still remain growth bottle neck of the industry, in particular, those senior engineers returning to China from Japan. The Group will continue to expand at targeted organic growth rate of 30% for coming years. The organic growth rate is considered as a realistic rate under control by the experience of the management. Further growth by means of merger and acquisition will be subject to uncertainties as to availability of suitable targets and the timing of completion. Other than acquiring companies engaged in the Japan software market, the same also applies when acquiring companies engaged in the US or in the China software markets. The Group continues to keep a close eye on any acquisition opportunities on sizeable companies.

MANAGEMENT DISCUSSION AND ANALYSIS

Employee and Remuneration Policies

As at 30 June 2007, total headcount of the Group reached 3,021 breaking down into 2,812 in China and 209 in Japan. Employees are remunerated based on their performance, work experience and the prevailing market rates. Performance related bonuses are granted on a discretionary basis. Other employee benefits include pension fund, insurance and medical coverage, training programs and participation in the Group's share option scheme.

Share Option Scheme

As at 30 June 2007, there were options for 64,764,000 ordinary shares of HK\$0.025 each in the share capital of the Company (the "Share(s)") granted by the Company pursuant to the option scheme, as adopted by the shareholders of the Company on 2 April 2004 (the "Option Scheme"), which were valid and outstanding. No options were lapsed during the six months ended 30 June 2007.

New share options were granted under the Option Scheme during the Period, which allowed and enabled 17,050,000 units of new shares to be issued during specific of time.

Audit Committee

The Audit Committee of the Company, which is chaired by an independent non-executive director, currently comprises three independent non-executive directors. It meets at least two times a year and meetings are attended by external auditors, the chief financial officer and the company secretary for the purpose of discussing the nature and scope of audit work, setting and monitoring the Company's internal audit program and assessing the Company's internal controls. It has reviewed this interim report, including the unaudited interim financial statements for the Period which were not required to be audited, and has recommended their adoption by the Board.

MANAGEMENT DISCUSSION AND ANALYSIS

Compliance with the Code on Corporate Governance Practices

The Company is committed to maintaining a high standard of corporate governance. During the accounting period ended 30 June 2007, the Company had met the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules") except A.2.1 that Mr Wang Zhiqiang had been both the Chairman and Chief Executive Officer of the Company. The roles of the Chairman of the Board and the Chief Executive Officer were not separated because, to our belief, the separation might not enhance the Group's efficiency and business operation. The balance of power and authority is ensured by regular discussion and meetings of the Board and active participation of independent non-executive directors. The Board continues to review its practices from time to time with an aim to improve the Group's corporate governance practices so as to meet international best practice.

Compliance with the Model Code set out in Appendix 10 to the Listing Rules

The Company has adopted a code of conduct regarding securities transactions by directors ("Code of Conduct") on terms no less exacting than the required standard set out in the Model Code set out in Appendix 10 to the Listing Rules ("the Code") and the Company has made specific enquiry of all directors that they have complied with the required standard set out in the Code and the Code of Conduct.

Purchase, Sale or Redemption of Listed Securities

During the Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Directors' Interest in Shares

As at 30 June 2007, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance "SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short positions which they are taken or deemed to have under such provisions of the SFO) of which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or as otherwise

MANAGEMENT DISCUSSION AND ANALYSIS

notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

Ordinary shares of HK\$0.025 each

(a) *Interests in the Company*

Name of Director	Capacity/Nature of interest	No. of shares of the Company	Note	Approximate percentage of shareholding
Mr Wang Xubing	Interest of a controlled corporation	563,000,000 (L)	1	51.04%
Mr Wang Zhiqiang	Interest of a controlled corporation	563,000,000 (L)	2	51.04%
Dr Shi Chongming	Beneficial owner	4,043,200 (L)		0.37%
Mr Siu Kwok Leung	Beneficial owner	4,280,000 (L)		0.39%

Notes:

1. These shares are beneficially owned by China Way International Limited ("China Way"). By virtue of his 51% shareholding interest in China Way, Mr Wang Xubing is deemed or taken to be interested in the 563,000,000 shares of the Company owned by China Way for the purpose of the SFO.
2. These shares are beneficially owned by China Way. By virtue of his 49% shareholding interest in China Way, Mr Wang Zhiqiang is deemed or taken to be interested in the 563,000,000 shares of the Company owned by China Way for the purpose of the SFO.
3. The Letter "L" denotes a long position in shares.

(b) *Interests in associated corporations of the Company*

Name of associated corporation	Name of director	Capacity/Nature of interest	No. of ordinary shares of US\$1.00 each	Percentage of shareholding
China Way	Mr Wang Xubing	Beneficial owner	51 (L)	51%
China Way	Mr Wang Zhiqiang	Beneficial owner	49 (L)	49%

Note: The letter "L" denotes a long position in shares.

MANAGEMENT DISCUSSION AND ANALYSIS

Save as disclosed herein, as at 30 June 2007, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Other than as stated above, at no time during the Period was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company (including their spouse and children under 18 years of age) to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2007, details of substantial shareholders' and other persons' (who are required to disclose their interests pursuant to Part XV of the SFO) interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO are as follows: —

(a) Interests in Shares

Name of shareholder	Capacity/Nature of interest	No. of shares of the Company	Note	Approximate percentage of shareholding
China Way	Beneficial owner	563,000,000 (L)		51.04%
Wang Xubing	Interest of a controlled corporation	563,000,000 (L)		51.04%
Wang Zhiqiang	Interest of a controlled corporation	563,000,000 (L)		51.04%
Madam Zhang Yue	Interest of spouse	563,000,000 (L)	1	51.04%
Madam Yuan Yue Ling	Interest of spouse	563,000,000 (L)	2	51.04%

MANAGEMENT DISCUSSION AND ANALYSIS

Notes:

1. Madam Zhang Yue is the wife of Mr Wang Xubing and is deemed to be interested in the 563,000,000 shares in which Mr Wang Xubing is deemed or taken to be interested for the purposes of the SFO.
2. Madam Yuan Yue Ling is the wife of Mr Wang Zhiqiang and is deemed to be interested in the 563,000,000 shares in which Mr Wang Zhiqiang is deemed or taken to be interested for the purposes of the SFO.
3. The letter "L" denotes a long position in shares.

(b) *Short Position in Shares and Underlying Shares*

Save as disclosed in paragraph (a) above, no other interest required to be recorded in the register kept under Section 336 of the SFO has been notified to the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2007

	NOTES	Six months ended 30 June	
		2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)
Revenue		258,006	163,356
Cost of services		(148,905)	(93,663)
Gross profit		109,101	69,693
Other income		2,111	5,402
Discount on acquisition of additional equity interest in a subsidiary	16	322	—
Share of loss of an associate		(112)	(65)
Administrative expenses		(53,933)	(32,417)
Interest expenses on bank borrowings within five years		(5)	(9)
Profit before taxation	4	57,484	42,604
Taxation	5	(8,976)	(7,259)
Profit for the period		48,508	35,345
Profit attributable to:			
Equity holders of the Company		47,481	35,701
Minority interests		1,027	(356)
		48,508	35,345
Earnings per share	7		
— Basic		HK4.33 cents	HK3.30 cents
— Diluted		HK4.24 cents	HK3.20 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2007

	NOTES	30 June 2007 HK\$'000 (unaudited)	31 December 2006 HK\$'000 (audited)
Non-current assets			
Plant and equipment	8	18,460	15,338
Goodwill		7,956	7,956
Interests in an associate		1,856	1,968
Investment in an unconsolidated subsidiary	9	8,015	8,015
Other deposits		5,493	4,861
		41,780	38,138
Current assets			
Trade and other receivables	10	98,714	84,716
Amounts due from related parties	12	310	361
Amount due from an unconsolidated subsidiary		—	121
Bank balances and cash		322,555	315,840
		421,579	401,038
Current liabilities			
Trade and other payables	11	43,338	39,054
Amount due to a related party	12	12	12
Bank borrowings	13	285	294
Tax liabilities		6,680	6,564
		50,315	45,924
Net current assets			
		371,264	355,114
		413,044	393,252
Capital and reserves			
Share capital	14	27,577	27,417
Reserves		381,321	356,917
Equity attributable to equity holders of the Company		408,898	384,334
Minority interests		4,069	8,692
Total equity		412,967	393,026
Non-current liabilities			
Bank borrowings	13	77	226
		413,044	393,252

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2007

	Attributable to equity holders of the Company										Minority interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000 (Note 1)	Other reserve HK\$'000 (Note 2)	General reserve fund HK\$'000 (Note 3)	Shareholder's contribution HK\$'000 (Note 4)	Translation reserve HK\$'000	Share option reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000		
Balance at 1 January 2006	27,017	130,988	10,657	5,078	16,232	2,726	2,533	2,003	114,944	312,178	7,120	319,298
Exchange differences arising on translation of overseas operations directly recognized in equity	–	–	–	–	–	–	2,335	–	–	2,335	472	2,807
Profit for the period	–	–	–	–	–	–	–	–	35,701	35,701	(356)	35,345
Total recognised income and expense for the period	–	–	–	–	–	–	2,335	–	35,701	38,036	116	38,152
Exercise of share options	367	13,391	–	–	–	–	–	(4,578)	–	9,180	–	9,180
Recognition of equity-settled share based payments expenses	–	–	–	–	–	–	–	6,589	–	6,589	–	6,589
Dividend paid	–	–	–	–	–	–	–	–	(29,718)	(29,718)	–	(29,718)
Balance at 30 June 2006	27,384	144,379	10,657	5,078	16,232	2,726	4,868	4,014	120,927	336,265	7,236	343,501
Balance at 1 January 2007	27,417	143,206	10,657	5,078	24,761	2,726	10,385	9,843	150,261	384,334	8,692	393,026
Exchange differences arising on translation of overseas operations directly recognized in equity	–	–	–	–	–	–	8,898	–	–	8,898	(55)	8,843
Profit for the period	–	–	–	–	–	–	–	–	47,481	47,481	1,027	48,508
Total recognised income and expense for the period	–	–	–	–	–	–	8,898	–	47,481	56,379	972	57,351
Acquisition of additional equity interest in a subsidiary	–	–	–	–	–	–	–	–	–	–	(5,722)	(5,722)
Contribution from a minority shareholder	–	–	–	–	–	–	–	–	–	–	127	127
Exercise of share options	160	4,914	–	–	–	–	–	(1,080)	–	3,994	–	3,994
Forfeiture of share options	–	–	–	–	–	–	–	(478)	478	–	–	–
Recognition of equity-settled share based payments expenses	–	–	–	–	–	–	–	4,773	–	4,773	–	4,773
Dividend paid	–	–	–	–	–	–	–	–	(40,582)	(40,582)	–	(40,582)
Balance at 30 June 2007	27,577	148,120	10,657	5,078	24,761	2,726	19,283	13,058	157,638	408,898	4,069	412,967

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2007

- Note 1: The capital reserve of the Group represents the difference between the paid-in capital of the subsidiaries acquired pursuant to a group reorganisation and the nominal value of the Company's shares issued in exchange therefore.
- Note 2: The other reserve of the Group represents the capitalisation of general reserve fund and enterprise expansion fund in Zhongxun Computer System (Beijing) Co., Ltd. ("SinoCom Beijing") as share capital of SinoCom Beijing in year 2003.
- Note 3: In accordance with the law and regulations in the People's Republic of China (the "PRC") on foreign enterprises, SinoCom Beijing is required to set aside 10% of its net profit to the general reserve fund until the fund aggregates to 50% of its registered capital. In accordance with its articles of association, SinoCom Beijing may transfer such amount of profits (after taxation) as determined by its board of directors to the general reserve fund before distribution to its shareholders. The general reserve fund is non-distributable and can be used to increase the capital of SinoCom Beijing. The general reserve fund can also be used to make good future losses.
- Note 4: The shareholder's contribution of the Group represents waiver of amount due to a shareholder of the Company in 2001.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2007

	Six months ended 30 June	
	2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)
Net cash from operating activities	58,307	33,580
Net cash used in investing activities:		
Purchase of plant and equipment	(5,341)	(4,377)
Acquisition of additional interest in a subsidiary	(3,240)	—
Proceeds from disposal of plant and equipment	5	—
Deposits made for acquisition of subsidiaries	—	(5,056)
Investment in an associate	—	(2,024)
	(8,576)	(11,457)
Net cash used in financing activities:		
Dividend paid	(40,582)	(29,718)
Repayment of bank borrowings	(158)	(146)
Interest paid	(5)	(9)
Proceeds from issue of shares	3,994	9,180
Contribution from a minority shareholder	127	—
	(36,624)	(20,693)
Net increase in cash and cash equivalents	13,107	1,430
Cash and cash equivalents at beginning of the period	315,840	283,945
Effects of foreign exchange rate change	(6,392)	1,915
Cash and cash equivalents at end of the period, represented by bank balances and cash	322,555	287,290

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2007

1. Basis of Preparation

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

2. Principal Accounting Policies

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2006.

In the current interim period, the Group has applied, for the first time, the following new standard, amendment and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are effective for the Group’s financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HK(IFRIC) — Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ²
HK(IFRIC) — Int 8	Scope of HKFRS 2 ³
HK(IFRIC) — Int 9	Reassessment of Embedded Derivatives ⁴
HK(IFRIC) — Int 10	Interim Financial Reporting and Impairment ⁵

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 May 2006

⁴ Effective for annual periods beginning on or after 1 June 2006

⁵ Effective for annual periods beginning on or after 1 November 2006

The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2007

3. Segment Information

The Group is principally engaged in the provision of outsourcing software development services and technical support services. For the six months ended 30 June 2007, 94.7% (six months ended 30 June 2006: 93.9%) 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 services in two markets, the People's Republic of China ("PRC") and Japan. The Group's primary format for reporting segment information is geographical segment.

The following table provides an analysis of the Group's sales and segment results by geographical markets, irrespective of the origin of the services:

	Six months ended 30 June 2007		
	PRC HK\$'000	Japan HK\$'000	Consolidated HK\$'000
Revenue	23,481	234,525	258,006
Segment results	7,012	58,099	65,111
Share of loss of an associate	(112)	—	(112)
Discount on additional equity interest in a subsidiary			322
Unallocated other income			2,111
Unallocated corporate expenses			(9,943)
Interest expenses on bank borrowings within five years			(5)
Profit before taxation			57,484
Taxation			(8,976)
Profit for the period			48,508

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2007

3. Segment Information (continued)

	Six months ended 30 June 2006		
	PRC HK\$'000	Japan HK\$'000	Consolidated HK\$'000
Revenue	18,504	144,852	163,356
Segment results	2,024	40,622	42,646
Share of loss of an associate	(65)	—	(65)
Unallocated other income			5,402
Unallocated corporate expenses			(5,370)
Interest expenses on bank borrowings within five years			(9)
Profit before taxation			42,604
Taxation			(7,259)
Profit for the period			35,345

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2007

4. Profit before Taxation

Profit before taxation has been arrived at after charging (crediting) the following items:

	Six months ended 30 June	
	2007 HK\$'000	2006 HK\$'000
Depreciation of plant and equipment	2,469	2,104
Loss on disposal of plant and equipment	13	22
Operating lease rentals in respect of premises	15,494	10,100
Share based payments expense	4,773	6,589
Net foreign exchange loss (gain)	16,748	(1,136)
Interest income	(1,331)	(4,222)

5. Taxation

	Six months ended 30 June	
	2007 HK\$'000	2006 HK\$'000
PRC enterprise income tax	5,380	4,715
Japan income tax	3,596	2,544
	8,976	7,259

In March 2007, PRC's Unified Enterprise Income Tax Law ("Law") was announced, which resulted in major changes in tax rates and incentives. The Law will be effective on January 1, 2008. There are phase-in rules applicable to PRC subsidiaries of the Company and their tax rates will gradually increase to 25% over a five-year transition period and the 25% rate will apply thereafter. In accordance with the Law, the existing preferential tax treatments granted to certain PRC subsidiaries of the Company may continue to be entitled if the PRC subsidiaries of the Company qualify as "technologically advanced enterprise strongly supported by the State". However, as the detailed implementation regulation of the Law has not yet been issued, it is uncertain whether these PRC subsidiaries of the Company can qualify as a "technologically advanced enterprise strongly supported by the State" after the effective date of the Law.

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 period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2007

6. Dividend

On 19 May 2006, a final dividend of 2.75 HK cents per share, as adjusted for the Share Subdivision (total dividend HK\$29,718,000) in respect of the financial year ended 31 December 2005 was paid to the shareholders.

On 27 May 2007, a final dividend of 3.70 HK cents per share (total dividend HK\$40,582,000) in respect of the financial year ended 31 December 2006 was paid to the shareholders.

The directors do not recommend the payment of an interim dividend.

7. 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:

	Six months ended 30 June	
	2007 HK\$'000	2006 HK\$'000
Earnings Profit for the period attributable to equity holders of the Company	47,481	35,701

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2007

7. Earnings per Share (continued)

	Six months ended 30 June	
	2007 '000	2006 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,097,740	1,083,170
Effect of dilutive potential ordinary shares: Share options	22,063	32,012
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,119,803	1,115,182

8. Movements in Plant and Equipment

During the period, the Group disposed of certain plant and equipment with a carrying amount of HK\$18,000 (six month ended 30 June 2006: HK\$22,000) for proceeds of HK\$5,000 (six month ended 30 June 2006: HK\$ nil), resulting in a loss on disposal of HK\$13,000 (six month ended 30 June 2006: HK\$22,000). In addition, the Group spent HK\$5,341,000 (six months ended 30 June 2006: HK\$4,377,000) on additions to plant and equipment.

9. Investment in an Unconsolidated Subsidiary

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 solution and the distribution of software products, for an aggregate cash consideration of JPY120,000,000 (equivalent to approximately HK\$8,015,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2007

9. Investment in an Unconsolidated Subsidiary (continued)

Due to 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 since its acquisition by the Group in August 2006.

The subsidiary was subsequently disposed of after balance sheet date on 30 June 2007. Further details of disposal are set out in note 20.

The amount due from MIS is unsecured, interest-free, and fully settled during the six months ended 30 June 2007.

10. Trade and Other Receivables

	30 June 2007	31 December 2006
	HK\$'000	HK\$'000
Trade receivables	74,246	64,545
Other debtors	12,877	7,730
Deposit previously made for acquisition of an investment (note 17)	1,847	1,792
Other deposits	2,486	8,156
Prepayments	7,258	2,493
Total trade and other receivables	98,714	84,716

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2007

10. 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:

	30 June 2007 HK\$'000	31 December 2006 HK\$'000
0-30 days	62,248	46,991
31-60 days	6,898	10,250
61-90 days	4,205	3,434
91-180 days	895	3,403
Over 180 days	—	467
	74,246	64,545

11. Trade and other Payables

	30 June 2007 HK\$'000	31 December 2006 HK\$'000
Trade payables	2,044	1,643
Wages and salaries payable	22,294	23,136
Accruals	3,232	3,209
Other tax payables	10,613	8,900
Payable for outstanding consideration for acquisition of additional equity interest in a subsidiary	2,160	—
Other payables	2,995	2,166
	43,338	39,054

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2007

11. Trade and other Payables (continued)

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

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

	30 June 2007 HK\$'000	31 December 2006 HK\$'000
0-30 days	952	1,129
31-60 days	457	502
61-90 days	260	12
91-180 days	375	—
	2,044	1,643

12. Amounts due from/to Related Parties

	30 June 2007 HK\$'000	31 December 2006 HK\$'000
Amount due from an associate	79	127
Amount due from a director	231	231
Amount due from a shareholder	—	3
	310	361
Amount due to a shareholder	12	12

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2007

13. Bank Borrowings

During the six months ended 30 June 2007, the Group repaid bank borrowings of HK\$158,000.

14. Share Capital

	Number of shares	
	'000	HK\$'000
Authorised:		
Ordinary shares of HK\$0.10 each, at 1 January 2006	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 and 30 June 2007	4,000,000	100,000
Issued and fully paid:		
At 1 January 2006	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 ii)	16,008	400
At 31 December 2006	1,096,679	27,417
Exercise of share options (Note iii)	6,390	160
At 30 June 2007	1,103,069	27,577

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 then 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) Subsequent to the Share Subdivision, share options to subscribe for 16,008,000 ordinary shares of HK\$0.025 each were exercised during 2006 at HK\$0.625 per share.
- (iii) During the six months ended 30 June 2007, share options to subscribe for 6,390,000 ordinary shares of HK\$0.025 each were exercised at HK\$0.625 per share.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2007

15. Share-based Payments

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.

Details of specific category of options are as follows:

Date of grant	Exercisable period	Vesting period	Original exercise price	Exercise price as adjusted after Share Subdivision
10/11/2004	10/11/2004–09/11/2014	10/11/2004-09/05/2008	HK\$2.50	HK\$0.625
24/01/2006	24/01/2006–23/01/2016	24/01/2006-23/01/2010	HK\$5.55	HK\$1.3875
15/01/2007	15/01/2007–14/01/2017	15/01/2007-14/01/2011	HK\$1.73	N/A

Details of movements of the share options, all of which were granted to the employees of the Group, during the six months ended 30 June 2007 are as follows:

Date of grant	Outstanding at 01/01/2007	Granted during period	Exercised during period	Forfeited during period	Outstanding at 30/06/2007
10/11/2004	36,064,000	–	(6,390,000)	(400,000)	29,274,000
24/01/2006	20,120,000	–	–	(1,680,000)	18,440,000
15/01/2007	–	17,050,000	–	–	17,050,000
	56,184,000	17,050,000	(6,390,000)	(2,080,000)	64,764,000

The options granted on 15 January 2007 may be exercisable during the period from the first anniversary of the date of grant, being 15 January 2007 to 14 January 2017 (both days inclusive), in the following manner:

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2007

15. Share-based Payments (continued)

- (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 14 January 2017;
- (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 14 January 2017;
- (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 14 January 2017; and
- (e) the remaining 25% of the options will be exercisable at any time on or after the fourth anniversary of the date of grant up to and including 14 January 2017.

The closing price of the Company's shares immediately before 15 January 2007, the date of grant of options, was HK\$1.73.

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised in the six months ended 30 June 2007 was HK\$1.53.

The options granted on 15 January 2007 have a fair value of HK\$0.61 per option which was determined at the date of grant using the Black-Scholes pricing model.

Details of the assumptions used to calculate fair value of share options granted on 15 January 2007 as follows:

Exercise price	HK\$1.73
Expected life	6.25 years
Expected volatility	42%
Expected dividend yield	2.5%
Risk free rate	3.85%

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2007

15. Share-based Payments (continued)

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.

16. Acquisition of Additional Interest in a Subsidiary

In February 2007, the Group entered into an agreement to acquire a 45% further equity interest in an existing non-wholly subsidiary, SinoCom Shensoft Holdings (BVI) Limited ("SinoCom Shensoft"), which is incorporated in British Virgin Islands and principally engaged in the provision of investment, from the minority owner of the subsidiary for a cash consideration of HK\$5,400,000 of which HK\$3,240,000 was paid on 13 February 2007 while the remaining consideration of HK\$1,080,000 and HK\$1,080,000 are to be paid before 31 December 2007 and 31 December 2008, respectively. In the opinion of directors, the carrying amounts of acquired net assets approximate to their fair value and the discount amounting to HK\$322,000 was recognized in the condensed consolidated income statement.

17. Contingent Liabilities

On 14 March 2006, SinoCom Holdings (BVI) Limited ("SinoCom BVI") entered into a sale and purchase agreement (the "Agreement") with Mr. Jiang Xiufeng ("Jiang") pursuant to which SinoCom BVI has conditionally agreed to acquire from Jiang a 22% equity interest in Beijing Jbridge Information Technology Co., Ltd. ("Beijing Jbridge"), for a consideration of RMB6,600,000 (equivalent to approximately HK\$6,773,000) to be satisfied in cash. A deposit of RMB1,800,000 (equivalent to approximately HK\$1,847,000) 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;

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2007

17. Contingent Liabilities (continued)

- (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.

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\$4,926,000) and legal costs and other expenses incurred amounting to approximately RMB600,000 (equivalent to HK\$616,000).

In January 2007, SinoCom BVI counter-claimed Jiang for the deposits paid, related interest and legal costs incurred.

In July 2007, the China International Economic and Trade Arbitration Commission decided that it could not make an award within the time fixed by Arbitration Rules and hence extended the arbitration time to 10 October 2007.

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 within one year from the balance sheet date and accordingly classified under current assets.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2007

18. 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:

	30 June 2007 HK\$'000	31 December 2006 HK\$'000
Within one year	28,982	26,298
In the second to fifth year inclusive	29,020	31,811
	58,002	58,109

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.

19. Related Party Transaction and Balances

During the six months ended 30 June 2007, the Group received revenue from outsourcing software development services of HK\$84,000 and from technical support services of HK\$349,000 from an associate. No such revenue was received from the associate for the six months ended 30 June 2006. In addition, details of balances with related parties at the balance sheet date are set out in the consolidated balance sheet and note 12.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2007

19. Related Party Transaction and Balances (continued)

Compensation of key management personnel

The remuneration of directors and other members of key management is as follows:

	Six months ended 30 June	
	2007 HK\$'000	2006 HK\$'000
Salaries and other benefits	8,297	5,798
Retirement benefits scheme contributions	388	192
Share-based payments	385	472
	9,070	6,462

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 having regard to the performance of individuals and market trends.

20. Post Balance Sheet Event

On 13 July 2007, SinoCom BVI entered into an agreement with IKEDA TERUO, one of the existing shareholders of MIS, to dispose of a 30% equity interest in MIS for a cash consideration of approximately JPY48,000,000 (equivalent to approximately HK\$3,038,000). On the same day, SinoCom BVI entered into an agreement with Global Risk Systems Japan Limited, an independent third party, to dispose of its remaining 45% equity interest in MIS for a cash consideration of JPY72,000,000 (equivalent to approximately HK\$4,557,000).

Following the completion of the disposal of the subsidiary in August 2007, Sinocom BVI ceases to have any interest in MIS.