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)

Harmonious Growth With Proactive Spirit

2007 annual report

Stock Code: 0299

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. Wang Zhiqiang
Mr. Wang Xubing
Dr. Shi Chongming
Mr. Siu Kwok Leung

Non-executive Director
Mr. Wang Nengguang

Independent Non-executive Directors
Mr. Pang Chor Fu
Professor Li Weian
Mr. Lee Kit Wah

COMPANY SECRETARY
Mr. Siu Kwok Leung *FCCA, AHKICPA*

QUALIFIED ACCOUNTANT
Mr. Siu Kwok Leung *FCCA, AHKICPA*

AUTHORISED REPRESENTATIVES
Mr. Wang Zhiqiang
Mr. Siu Kwok Leung

AUDIT COMMITTEE
Mr. Pang Chor Fu
Professor Li Weian
Mr. Lee Kit Wah

SALARY REVIEW COMMITTEE
Mr. Wang Zhiqiang
Mr. Wang Nengguang
Mr. Pang Chor Fu
Professor Li Weian
Mr. Lee Kit Wah

REGISTERED OFFICE
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KYI-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS
9th Floor, Tengda Building
No. 168 Xizhimenwai Street
Haidian District
Beijing
China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Units 1713-18, 17/F
Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

WEBSITE
www.sinocom.cn

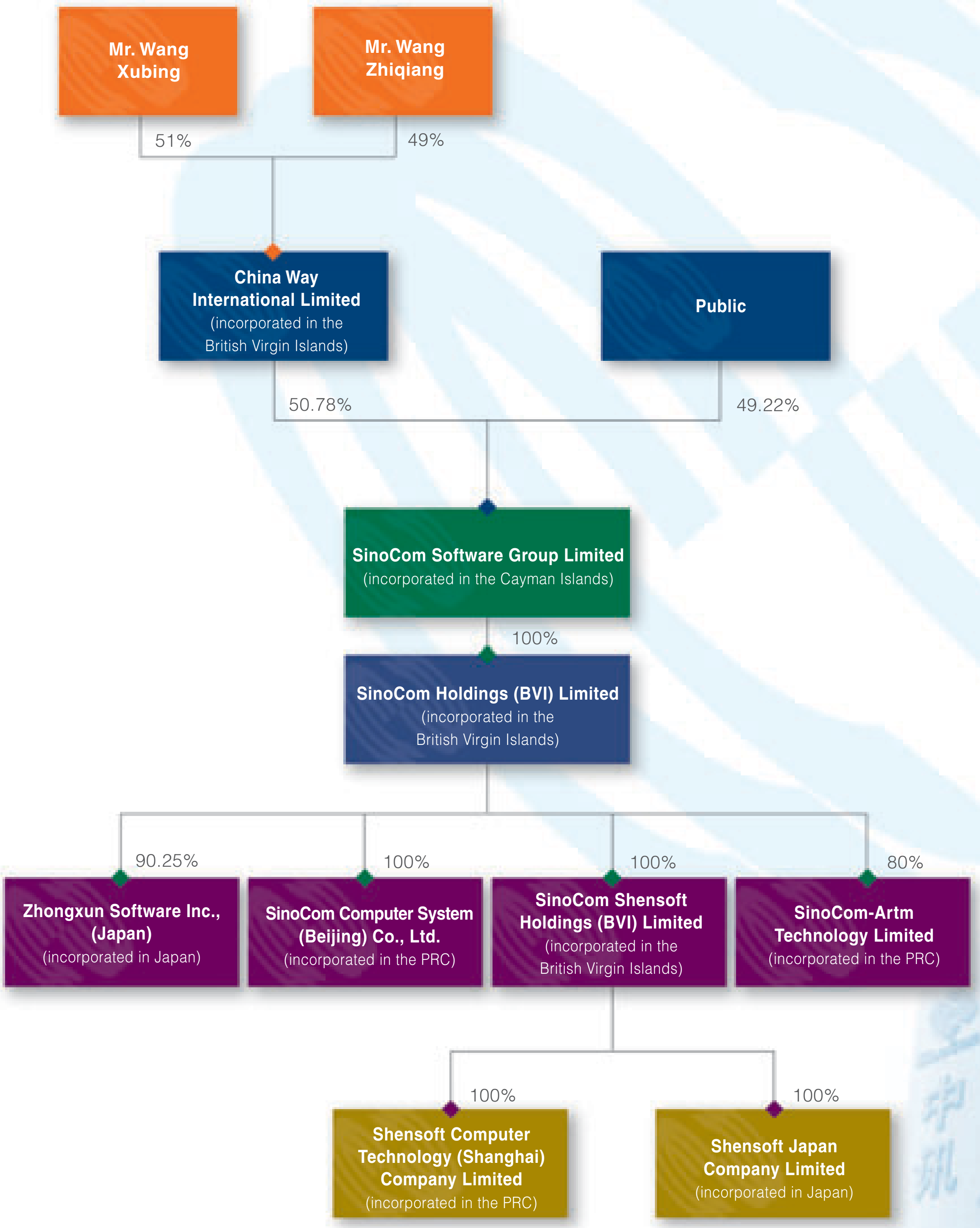
PRINCIPAL BANKER
Bank of China
No. 5 Fuchengmenwai Street
Xicheng District
Beijing
China

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Bank of Butterfield International (Cayman) Ltd.
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Island

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

CORPORATE STRUCTURE

As at 31 December 2007



FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2007 HK$'000	2006 HK$'000	2005 HK$'000	2004 HK$'000	2003 HK$'000
TURNOVER	564,507	377,433	250,657	178,309	114,533
PROFIT BEFORE TAXATION	138,491	86,105	69,617	58,829	38,076
TAXATION	(20,839)	(11,668)	(9,036)	(6,524)	(4,196)
PROFIT FOR THE YEAR	117,652	74,437	60,581	52,305	33,880
PROFIT ATTRIBUTABLE TO:					
EQUITY HOLDERS OF THE COMPANY	115,474	73,308	60,012	52,256	33,852
MINORITY INTERESTS	2,178	1,129	569	49	28
	117,652	74,437	60,581	52,305	33,880
EARNINGS PER SHARE					
Basic (cents)	10.48	6.73	5.59	5.35	4.32
Diluted (cents)	10.30	6.54	5.46	5.35	–

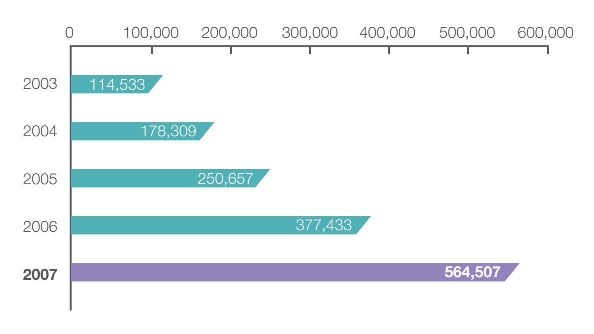
ASSETS AND LIABILITIES

	As at 31 December				
	2007 HK$'000	2006 HK$'000	2005 HK$'000	2004 HK$'000	2003 HK$'000
TOTAL ASSETS	587,727	439,176	352,978	291,656	132,650
TOTAL LIABILITIES	(81,991)	(46,150)	(33,680)	(30,181)	(16,815)
	505,736	393,026	319,298	261,475	115,835
EQUITY ATTRIBUTABLE TO					
EQUITY HOLDERS OF THE COMPANY	500,510	384,334	312,178	260,948	115,370
MINORITY INTERESTS	5,226	8,692	7,120	527	465
	505,736	393,026	319,298	261,475	115,835

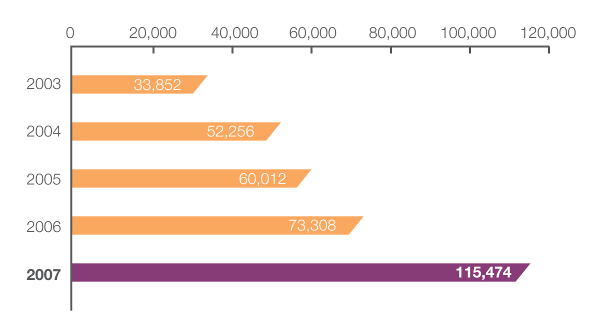
Note: The results of the Group for the year ended 31 December 2003 and the assets and liabilities of the Group as at 31 December 2003 are extracted from the Company's prospectus dated 30 April 2004.

FINANCIAL HIGHLIGHTS

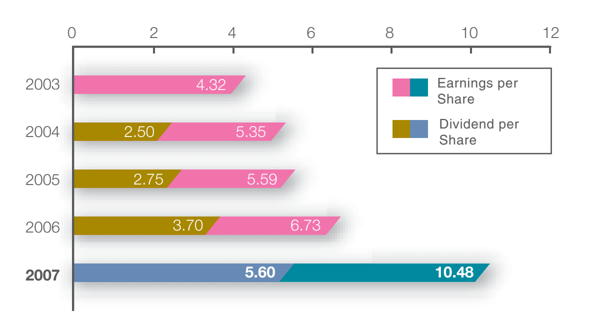
Turnover HK$'000



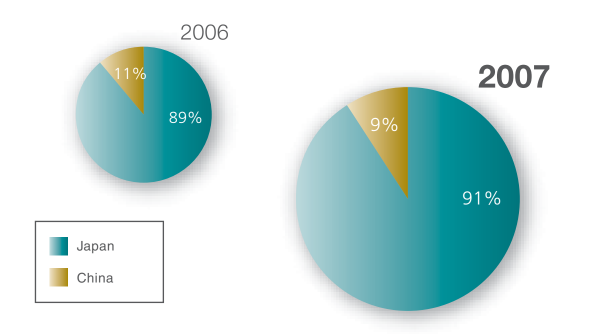
Profit Attributable to Shareholders HK$'000



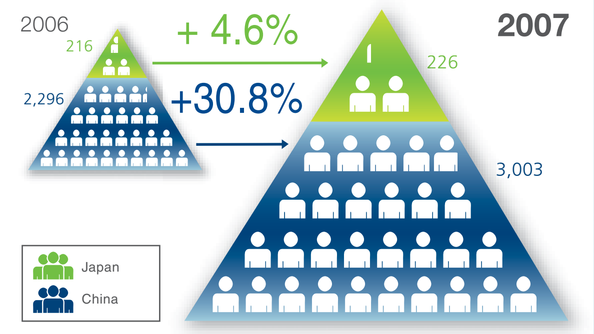
Earnings per Share & Dividend per Share HK cents



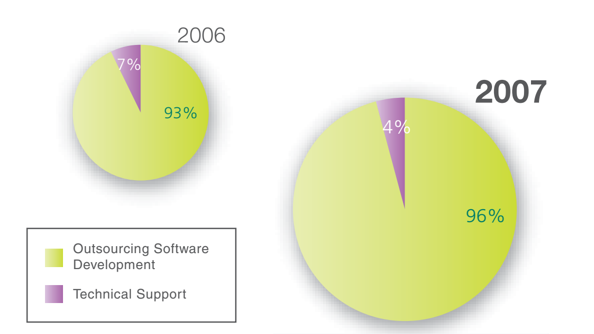
Revenues by Country



Headcounts



Scope of Services



CHAIRMAN'S STATEMENT

"**Talents** is a critical asset. SinoCom fosters talents, **promotes** loyalty **and** cohesiveness."

Mr. Wang Zhiqiang
Chairman

Mr. Wang Xubing
President

For the year ended 31 December 2007 ("the Year"), SinoCom Software Group Limited continued to show encouraging operating performance. Turnover and profit attributable to shareholders sustained their growths and soared at their respective rates of 49.6% and 58%, both achieving record highs. The Board is therefore pleased to declare a proposed final dividend of HK5.60 cents per share for the year ended 31 December 2007.

CHAIRMAN'S STATEMENT

BUSINESS REVIEW

Japan remained to be the Group's market focus for securing software outsourcing businesses. During the Year, Japan's IT market grew at a steady pace. Japanese enterprises were raising their R&D expenditures, especially in the financial industry where information technology was widely harnessed as the strategy for competition. Thus, IT services were in great demand and so did the related software outsourcing services. In addition, the Group enhanced its close relationship with its two major Japanese customers, giving the reason behind the record turnover made during the Year.

Further improving corporate management, enhancing staff efficiency and stringently controlling costs were the drivers for sustaining the high net profit margin at 20.8%, which helped alleviate pressure brought about by the stronger RMB and the intensifying inflation. Hence, net profit for the Year was as high as HK$117,652,000.

STRATEGY FOR FUTURE DEVELOPMENT

In China, there are presently about 1,000 companies that provide software outsourcing services for the Japanese market. SinoCom was one of the biggest five. This achievement has proved to be no easy task for the Group. The Board realized that software developing enterprises like SinoCom require a critical asset, i.e. talents. However, talents tend to be very mobile in today's competitive environment and escalating pay raise situation. In view of this the Group has taken measures to promote staff loyalty and cohesiveness. In the Year, a training institute was established in Shangdong for the nurture of software professionals. In this year, branch operations will be established in some secondary cities for attracting talents, thus reducing average staff cost while building up teams of talents. The Group can hence reinforce its competitiveness in securing software outsourcing businesses with cost advantage.

In this year, SinoCom will continue to pursue the same business direction that has been closely followed and has been proved to be successful - focusing on developing the software outsourcing market in Japan. Data have shown that the demand for information technology in Japan itself and aging population of the country will continue to drive in rapid pace Japan's industries towards outsourcing their software developments. It is anticipated that Japan will see an annual growth rate of about 30% in outsourcing its software developments in the next few years, which should reach US$2.9 billion in value by 2011. Culturally and linguistically China and Japan tend to share some similarities and thus Japanese enterprises are more inclined towards outsourcing contracts to China. SinoCom has accumulated tremendous experience in working with Japanese enterprises and to this end has built up a competitive edge. As a result, the Group is extremely confident about its future prospects in the Japanese market. In order to secure more upstream software outsourcing businesses and provide software outsourcing services that span different business domains in the country, the Group will further deepen its penetration by establishing a professional institute in Japan to solicit high-end technology professionals.

Apart from the deepening penetration in the Japanese market, the Group will explore development opportunities in other geographical areas. Europe is also a market of great potential for software outsourcing businesses, yet the Group has made sluggish progress in the region as it is still a fledgling market that there are issues to be tackled and problems to be solved. To this end, the Group is prepared to allocate more resources to it and hope to expedite its pace of development.

In recent years, RMB has been appreciating and thus the Group has intended to increase its RMB revenues. As there are more and more overseas enterprises making their presence in China, it is expected that domestically China will itself become a market of great potential to be fed with software outsourcing services. In this regard the Group will actively identify new business opportunities in the China market and make a breakthrough in this year.

Technology supporting services have all along been the Group's another steady source of revenues. China has been thriving in its economic development and thus more and more demands for services have derived from it. In the future, the Group will expand its technology supporting teams and further improve the quality of service as well as explore BPO servicing business to expand clientele.

Finally but not the least, I would like to extend my heartfelt appreciation to the Board and our staff force for their strenuous works, and to our shareholders and business partners for their trust and support. And rest assured that the Board will strive for the greatest return to our shareholders.

Wang Zhiqiang
Chairman and Chief Executive Officer

Hong Kong, 24 April 2008

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF RESULTS AND OPERATIONS

The Group's consolidated turnover for the year ended 31 December 2007 was approximately HK$564,507,000, representing an increase of approximately 49.6% when compared to 2006. Outsourcing software development work from the Group's existing Japanese customers continued to grow in 2007. Turnover derived from outsourcing software development work increased by approximately 55.3% to approximately HK$543,301,000. The increase was mainly attributable to the growth in business volume from its two largest customers to whom the aggregated turnover accounted to approximately 64.2% (2006: 65.3%). Business growth momentum remained strong during the year. Top five customers accounted to approximately 79% of the total turnover. There was also turnover consolidated from existing business of an acquired subsidiary during the year accounted for approximately 3.4% of the total revenue. Provision of technical support services turnover decreased by approximately 23% to approximately HK$21,205,000 notwithstanding business from the Group's international technical support service business partner in China increased by 12%. The decrease was mainly attributable to reallocation of resources in Shensoft, a subsidiary in Shanghai, from provision of technical support services to engagement in outsourcing software development projects instead. During the year, there was also a strong demand trend for outsourcing software development work from multinational companies in PRC as reflected by the turnover growth of approximately 56% of Sinocom Artm, a subsidiary the customers of which are mainly those multinational companies.

There were 3,229 full time staff headcounts as at 31 December 2007, an addition of 717 or 29% from 2,512 at beginning of the year. Increase in headcounts represented the organic growth of the Group since headcounts of a newly acquired subsidiary had not been included when it was disposed before year end. Turnover growth of 49.6% was higher than the headcount growth of 29%, mainly due to revision of charge rate structure from single flat rate to blended rates across the board of engineers with a net weighted average increment in charge rate to certain customers and increase in productivity.

Gross profit for the year increased to approximately HK$223,508,000, or 42% increase, when compared to the gross profit of HK$157,885,000 in 2006. The Group's gross profit margin was approximately 40% in 2007 (2006: 42%). Increase in costs resulted from strong RMB exchange rates accounted exactly for this margin drop. The Group successfully controlled its cost of services before exchange impact as a percentage to turnover flat to that of 2006. Salary related cost increased by approximately 48% which was lower than the turnover growth rate. However, slower headcounts growth rate than to turnover growth rate in the year represented inflated salary cost to the Group's employees as a whole. Human resources remained a bottleneck to the industry. The group established its own vocational education institute by end of the year will help to release the shortage in coming years.

Operating profit and net profit attributable to shareholders in 2007 increased by approximately 61% and 58% to HK$138,491,000 and HK$115,474,000 respectively. Operating margin and net profit margin in 2007 were approximately 24.5% and 20.5% respectively and the effective tax rate was approximately 15%. The Group still achieved slight improvement in net profit margin over that of 2006 operating under an inflationary cost environment during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

Since inception, the Group has funded its operations through equity funding and cash from operation and has no bank borrowings. The Group continued to maintain this strong cash generating capability for the Year. During the Year, the Group financed its operations and investing activities solely with internally generated cash flow. Bank borrowings by a subsidiary before it was acquired by the Group have been paid off during the Year. There were no bank borrowings at end of the Year.

SHARE CAPITAL

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period from the date of listing to 31 December 2007.

As at 31 December, 2007, the number of shares in respect of which options had been granted and remained outstanding under the share option scheme of the Company was 57,554,000, representing approximately 5.19% of the shares of the Company in issue at that date.

PLEDGE OF ASSETS

As at 31 December 2007, the Group had not pledged any of its assets.

EMPLOYEES AND REMUNERATION POLICY

The Group had 3,229 full time staff as at 31 December 2007 (2006: 2,512). Most of them are engineers located in China. There were 226 employees in Sinocom Japan and most of them were bridged system engineers worked at customers' locations in Japan. Their remuneration, promotion and salary review are assessed based on job responsibilities, work performance, professional experiences and the prevailing industry practice. The Group also offers project bonus and performance bonus to its staff. Project bonus is calculated by allowing a fixed amount per man-month of work completed in a project and distributed among staff engaged according to their respective contributions in the project. Performance bonus is calculated based on an evaluation of individual efforts and the financial performance of the Group. Adequate resources are preserved for Japanese language training on regular basis, new I.T. knowledge training and business domain knowledge training for each project before commencement of a project. On the job training is also provided after a project commenced. The Group maintains social insurance schemes for retirement, unemployment, personal injury and hospitalization for all of its employees in China. A housing provident fund system has also been implemented for its employees in China. Staffs in Japan are enrolled under the requisite pension fund and health scheme as required by Japanese law.

MANAGEMENT DISCUSSION AND ANALYSIS

FOREIGN EXCHANGE AND CURRENCY RISKS

Since most of the Group's revenue was generated from software development outsourced from Japan in Japanese Yen while expenses were settled in RMB, any depreciation of Japanese Yen against RMB, will reduce the income of the Group and have an adverse impact on the profitability of the Group. There was no effective hedging tool suitable to reduce this exchange rate exposure in 2007 given the monthly recurring nature of Japanese Yen revenue. The group strategy was to changing Japanese Yen into RMB immediately upon receipt. The Group planned to expand its business with revenue in RMB to diversify partially this risk.

CONTINGENT LIABILITIES

As at 31 December 2007, the Group had no material contingent liabilities.

CAPITAL COMMITMENTS

As at 31 December 2007, the Group had no material capital commitments.

DIRECTORS PROFILE

EXECUTIVE DIRECTORS

Mr. Wang Zhiqiang

Mr. Wang Zhiqiang (王志強), aged 44, is the chairman of the Board and the chief executive officer of the Group. He has been a member of the senior management since the establishment of Zhongxun Computer System (Beijing) Co., Ltd. (中訊計算機系統(北京)有限公司) ("SinoCom Beijing") in August 1995. Mr. Wang is responsible for the formulation of corporate strategies, and oversees financial and human resources management of the Group. He has over ten years' experience in the information technology industry. He graduated from the Northern Jiaotong University (北方交通大學) in 1984 and obtained a bachelor's degree in computer studies. Before founding the Group in 1995, he worked in Beijing Oracle Software Systems Co., Ltd. from 1990 to 1994 during which period he was engaged as sales representative, senior sales representative and business manager and was responsible for the sales and marketing of its products.

Mr. Wang Xubing

Mr. Wang Xubing (王緒兵), aged 45, is the president and a founder of the Group. Mr. Wang is responsible for the management and business development of the Group. He has over ten years' experience in software development and corporate management. Mr. Wang graduated from Northern Jiaotong University in 1987 with a master's degree in computer studies. Before founding the Group in August 1995, Mr. Wang worked in Japan from 1988 to 1994. During that period, Mr. Wang gained experience in software development and technical management during his employment with テー•エス•デー株式会社 (TSD) and 日中コミュニケーションズ株式会社 (JCC). After returning to the PRC from Japan, Mr. Wang established SinoCom Beijing in 1995 at which time P. R.O. Co., Ltd. held an approximately 77% equity interest in SinoCom Beijing as nominee on his behalf.

Dr. Shi Chongming

Dr. Shi Chongming (時崇明), aged 53, is an executive Director and the managing director of Zhongxun Software Inc. (日本中訊株式會社). Dr. Shi graduated from Shenyang Institute of Technology (瀋陽機電學院) in 1982 with a bachelor's degree in electronic engineering. He then obtained a master's degree in engineering from Northeast China Heavy Machinery Institute (東北重型機械學院) in 1984. He then continued his studies in Japan and obtained a doctorate in engineering from Hokkaido University in 1988. In 1991, Dr. Shi worked as the chief engineer in Think Co., Ltd., a software company in Japan. From June 1994 to June 1999, Dr. Shi worked for Sysnauts Co., Ltd. as its senior managing director. He joined the Group in July 1999.

DIRECTORS PROFILE

Mr. Siu Kwok Leung

Mr. Siu Kwok Leung (邵國樑), aged 45, is an executive Director as well as the chief financial officer and the company secretary of the Company. He is responsible for budget preparation, cost control, investment and financing, and merger and acquisition activities of the Group. He is also responsible for the management of the finance department of the Group. He is a member of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. Mr. Siu graduated from Hong Kong Polytechnic University with a professional diploma in accountancy in 1986. He then obtained a master's degree in finance from the Chinese University of Hong Kong in 1999, and a master's degree in ecommerce from the University of Hong Kong in 2001. Mr. Siu was a senior accounting officer of KPMG Peat Marwick in Hong Kong from 1986 to 1988; financial accountant of the Dairy Farm Group from 1988 to 1990; and finance and administration manager of Oracle Systems Hong Kong Limited from 1990 to 1991. He was then appointed as the financial controller and subsequently an executive director of Star Entertainment (International Holding) Limited from 1991 to 1996; the financial controller of Kessel Electronics (HK) Ltd. from 1997 to 2000; and the finance and operations directors of Emphasis Media Limited of the Time Warner Group in Hong Kong from 2000 to 2001. Mr. Siu joined the Group in 2002.

NON-EXECUTIVE DIRECTOR

Mr. Wang Nengguang

Mr. Wang Nengguang (王能光), aged 50, is the managing director and the chief financial officer of Legend Capital Limited, which engages in venture capital investments. Mr. Wang holds a master's degree (研究生) in economics management from the Chinese Communist Central Academy (中共中央黨校). Since 1994, he has been the general manager of the finance department of the Levono Group Limited, a company the shares of which are listed on the Main Board of the Stock Exchange. He was appointed as a Director in February 2003.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lee Kit Wah

Mr. Lee Kit Wah (李傑華), aged 53, graduated from University of Toronto in 1979 with a bachelor's degree in Commerce. He is a fellow of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants, and a fellow of the Taxation Institute of Hong Kong. Mr. Lee was trained at Price Waterhouse (presently PricewaterhouseCoopers) in Hong Kong from 1979 to 1984, and worked at F. S. Li & Co., Certified Public Accountants between 1985 to 1988 first as an audit supervisor and then as an audit manager. He has been practising as a certified public accountant in Hong Kong since 1988 and is the managing director of an accounting firm, Katon CPA Limited. He was appointed as a Director in March 2004. Mr. Lee is an independent non-executive director of ITC Corporation Limited and was also an independent non-executive director of Huali Holdings (Group) Limited during the period from September 2005 to April 2007, both listed on the Stock Exchange.

Professor Li Weian

Professor Li Weian (李維安), aged 51, is a professor and dean of the School of Business of Nankai University (南開大學), and a director of Nankai MBA Centre (南開大學MBA中心). Professor Li studied in Japan in 1990 and obtained a doctor's degree in economics from Nankai University in 1993. He then received another doctor's degree in commercial studies from Keio University in 1996. Professor Li was also the visiting professor of Tianjin University of Finance and Economics (天津財經大學), Shandong University (山東大學) and Beijing Teachers' Academy (北京師範大學). He was appointed as a Director in February 2004.

Professor Li is currently an independent non-executive director of Offshore Oil Engineering Co., Ltd. (海洋石油工程股份有限公司) and was an independent non-executive director of Shanxi Guoyong New Energy Co., Ltd. (山西國陽新能股份有限公司) during the period from April 2000 to October 2006, both listed on the Shanghai Stock Exchange, and was an independent non-executive director of Huayi Compressor Co., Ltd. (華意壓縮機股份有限公司), a company listed on the Shenzhen Stock Exchange, during the period from August 2002 to June 2004.

Mr. Pang Chor Fu

Mr. Pang Chor Fu (彭楚夫), aged 40, graduated from Boston University in 1990 with a bachelor's degree in manufacturing engineering. Mr. Pang has worked with the Toshiba group as an engineer in Tokyo, Japan since 1990. He was appointed as a Director in February 2004. Mr. Pang is a part-time research fellow of the Modern Enterprise Culture Research Center (當代企業文化研究所).Mr. Pang is a director of Hong Kong Importer and Exporter's Association and executive director of the Young Executives' Committee of the Chinese General Chamber of Commerce and also a member of the Hong Kong Institute of Directors.

REPORT OF DIRECTORS

The directors have pleasure in presenting their annual report and the audited consolidated financial statements for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries and associate are set out in notes 34 and 17 respectively to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 30.

The directors now recommend the payment of a final dividend of HK5.6 cents per share to the shareholders on the register of members on 20 May 2008, amounting approximately to HK$62,096,000 on the basis that no further shares are issued or repurchased prior to that date.

SUMMARY OF FINANCIAL INFORMATION

A summary of the Group's financial information is set out on page 4.

PLANT AND EQUIPMENT

Details of the movements during the year in the plant and equipment of the Group are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL AND SHARE OPTION SCHEME

Details of movements during the year in the share capital and share option scheme of the Company are set out in note 25 & 26 to the consolidated financial statements.

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

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2007, the Company's reserves available for distribution to shareholders was approximately HK$74,084,000, comprising of the contributed surplus of approximately HK$29,412,000 and the retained profit of approximately HK$44,672,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for 78.8% of the total sales for the year and sales to the largest customer included therein amounted to 37.7%. Purchases from the Group's five largest suppliers accounted for 77.4% of the total purchases for the year and purchases from the largest supplier included therein amounted to 57.5%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Wang Xubing
Mr. Wang Zhiqiang
Dr. Shi Chongming
Mr. Siu Kwok Leung

Non-executive director:

Mr. Wang Nengguang

Independent non-executive directors

Mr. Pang Chor Fu
Prof. Li Weian
Mr. Lee Kit Wah

In accordance with the provisions of the Company's Articles of Association, one third of the directors for the time being will retire by rotation and being eligible, offer themselves for re-election.

REPORT OF DIRECTORS

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

All non-executive directors have been appointed for a term of one year and either the non-executive director or the Company may terminate the appointment at any time by giving the other party at least one month's notice in writing.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance to which the Company, its holding Company, fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at 31 December 2007 or at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND SHARE OPTIONS

As at 31 December 2007, the interests and short positions of the directors and the chief executives and their associates in the shares, underlying shares and convertible bonds of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO") as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

(a) Interests in the Company

Name of directors	Capacity/Nature of interest	No. of shares of the Company	Notes	Approximate percentage of shareholding
Mr. Wang Xubing	Interest of a controlled corporation	563,000,000 (L)	1	50.78%
Mr. Wang Zhiqiang	Interest of a controlled corporation	563,000,000 (L)	2	50.78%
Dr. Shi Chongming	Beneficial owner	4,043,200 (L)		0.36%
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 shares of associated corporations of the Company

Name of associated corporation	Name of director	Capacity/Nature of interest	Number of ordinary shares of US$1.00 each	Percentage of shareholding
China Way	Mr. Wang Xubing	Interest of a controlled corporation	51 (L)	51%
China Way	Mr. Wang Zhiqiang	Interest of a controlled corporation	49 (L)	49%

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

Save as disclosed above, as at 31 December 2007, there was no other Director or chief executive of the Company who had any interest or short position in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) which were recorded in the register maintained by the Company under section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

As at 31 December 2007, no option was granted to Directors to acquire shares in the Company. At no time during the year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement that enabled any Directors to acquire such rights in any other body corporate.

REPORT OF DIRECTORS

SUBSTANTIAL SHAREHOLDERS' INTEREST

As at 31 December 2007, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows that (other than the interests disclosed above in respect of certain directors and chief executives), the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company.

Name of shareholder	Capacity/Nature of interest	No. of shares of the Company	Notes	Approximate percentage of shareholding
China Way Int'l Ltd	Beneficial owner	563,000,000 (L)		50.78%
Mr. Wang Xubing	Interest of a controlled corporation	563,000,000 (L)		50.78%
Mr. Wang Zhiqiang	Interest of a controlled corporation	563,000,000 (L)		50.78%
Madam Zhang Yue	Interest of spouse	563,000,000 (L)	1	50.78%
Madam Yuan Yue Ling	Interest of spouse	563,000,000 (L)	2	50.78%

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.

   Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2007.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

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

SHARE OPTION SCHEMES

Particulars of the Company's share option schemes and details of movements in the Company's share options during the year to subscribe for shares of HK$0.025 each in the Company granted under the share option schemes are, set out in note 26 to the financial statements.

As disclosed in note 26 to the financial statements, the number of shares in respect of which options had been granted and remained outstanding under the scheme was 57,554,000. The fair value of the options granted totalled approximately HK$32,865,000. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

(1) an expected volatility of 39%-44%;

(2) expected dividend yield of 2.5%;

(3) the estimated expected life of the options granted during the year is 4-6.25 years;

(4) the riskless rate that corresponds to the option lifetime at the date of the options granted is 2.48%-4.07%.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price, which can materially affect the fair value estimate. Thus, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

In the current year, an amount of share option expense of HK$8,928,000 has been recognised, with a corresponding adjustment recognised in the Group's share option reserve.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed in the section "share option scheme", at no time during the year was the Company, its holding company or any of its subsidiaries or fellow subsidiaries, a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

REPORT OF DIRECTORS

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by salary review committee on the basis of their merit, qualifications and competence.

The emolument of directors of the Company are decided by salary review committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 26 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2007.

CORPORATE GOVERNANCE

The Company has complied throughout the year with the Code of Best Practice (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") except that Mr. Wang Zhiqiang has been both the Chairman and Chief Executive Officer of the Company. Given the Group's current stage of development, the Board considers that vesting the roles of Chairman and Chief Executive Officer in the same person facilitates the execution of the Group's business strategies and maximizes effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider the appropriate adjustment should suitable circumstance arise.

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

The Company has received a written confirmation in respect of independence from each of the Independent Non-executive director of the Company in compliance with rule 3.13 of the Listing Rules and the Company still considers that each of them to be independent.

AUDITORS

Deloitte Touche Tohmatsu have acted as auditors of the Company for the past five years.

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Wang Zhiqiang
CHAIRMAN

Hong Kong, 24 April 2008

CORPORATE GOVERNANCE REPORT

COMMITMENT TO CORPORATE GOVERNANCE

The Company emphasizes on corporate governance and committed to maintaining high standard of corporate governance which is reviewed and strengthened from time to time. The Company has applied and complied with all the provisions under the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 of the Listing of Securities on the Stock Exchange of Hong Kong Limited (“Listing Rules”), except the deviation disclosed herein.

BOARD OF DIRECTORS

The board comprises eight directors, including four executive directors, namely Mr. Wang Zhiqiang, Mr. Wang Xubing, Dr. Shi Chongming and Mr. Siu Kwok Leung, one non-executive director Mr. Wang Nengguang, and three independent non-executive directors (“INED”), namely Mr. Lee Kit Wah, Professor Li Weian and Mr. Pang Chor Fu. All INEDs have complied with the requirements of the Listing Rules and have presented annual confirmations of independence issued pursuant to Rule 3.13 of the Listing Rules to the Company. The Directors consider that all the three INEDs are independent under these independence criteria and are capable to effectively exercise independent judgment.

The Company considers that the Board has the necessary skills and experience appropriate for discharging their duties as Directors in the best interest of the Company and that the current board size as adequate for its present operations. Detailed biographies outlining each Director’s range of specialist experience and suitability for the successful long-term management of the Group can be found in the Section of Directors Profile.

The principal functions of the Board are to make decision on the objectives, strategic plans, budgets and management structure of the Company; to oversee the management of the business and affairs of the Group; to supervise the management of the business and affairs with the objective of enhancing the Company and shareholders’ value with the proper delegation of the power to the management for its day-to-day operation of the Company, implementation of the budgets and strategic plans and development of the organization of the Company for implementing the Board’s decision. During the year under review, the Board has reviewed, inter alia, the performance and formulated business strategy of the Group; reviewed and approved the annual and interim results of the Group for the year ended 31 December, 2006 and 30 June, 2007 respectively; approved acquisitions and disposals of equity interest in subsidiaries of the Group; reviewed and approved the grant of share option; refreshment of option scheme; reviewed internal controls taken by the Group; and other significant operational and financial matters.

CORPORATE GOVERNANCE REPORT

The Board conducts meeting on a regular basis and on an ad hoc basis, as required by business needs. The Board held totally more than four Board Meetings during the year under review. Board meetings for the purpose of granting stock options or allotment of shares to exercised options in accordance to the terms set out in the Company's approved option scheme are delegated to meetings among Executive directors. In the said Board Meetings, sufficient notices for regular board meetings and reasonable days for non-regular board meetings were given to all directors so as to ensure that each of them had an opportunity to attend the meetings, and agendas and accompanying board papers were given to all Directors in a timely manner. If necessary, Directors also have recourse to external professional advice at the Group's expense. During the intervals between Board meetings, Directors are kept apprised of all major changes that may affect the Group's business. The draft minutes of Board meetings are prepared by the secretary of the meetings and circulated to all Directors for comments within a reasonable time. The approved minutes of the Board meetings are maintained by the Company Secretary and available for inspection by all Directors at request.

The number of board meetings attended by each director during the year under review is set out in the following table.

Executive directors	**Directors' attendance***
Mr. Wang Zhiqiang (Chairman & CEO)	13/13
Mr. Wang Xubing (President)	12/13
Dr. Shi Chongming	13/13
Mr. Siu Kwok Leung	13/13
Non-executive director	
Mr. Wang Nengguang	4/13
Independent non-executive directors	
Mr. Lee Kit Wah	4/13
Professor Li Weian	4/13
Mr. Pang Chor Fu	4/13

* 9 out of the 13 meetings in which Non-executive director and INEDs did not attend were for the purpose of granting stock options or allotment of shares to exercised options in accordance to the terms set out in the Company's approved option scheme delegated to board meetings among Executive directors.

NON-EXECUTIVE DIRECTORS

The Non-Executive Directors, together with the other directors of the Company are subject to retirement by rotation and re-election in accordance with the Company's Memorandum and Articles ("M&A") at each annual general meeting. They are expected to scrutinize the Company's performance in achieving agreed corporate goals and objectives; and ensuring that the exercise of the board authority is within the powers conferred to the board under is M&A, by-laws and applicable laws, rules and regulations. All fees paid to non-executive Directors for their services to the Group are subject to annual review and approval by the Salary Review Committee.

CORPORATE GOVERNANCE REPORT

NOMINATION OF DIRECTORS

For nomination, the Board will take into consideration of the nominee's qualifications, capabilities and potential to make contribution to the Company. The Board considers that the existing human resource policy in recruitment of new senior staff is also applicable to nomination of a new director. Furthermore, as the Board is responsible for selection and approval of candidates for appointment as directors to the Board, the Company has not established a nomination Committee for the time being.

In order to bring the Articles of Association in line with the Listing Rules, a special resolution was passed in 2006 annual general meeting which enabled the removal of directors by an ordinary resolution passed in a general meeting.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Code provision A.2.1 stipulated the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and chief executive officer ("CEO") should be clearly established and set out in writing.

The Company considers that the chairman is responsible for the operation of the board and the CEO is responsible for managing the operations of the Group, and the responsibilities are clearly set out in writing and approved by the Board. Mr. Wang Zhiqiang has been both the Chairman and Chief Executive Officer of the Company, which deviated from the provisions set out in the Code. Given the Group's current stage of development, the Board considers that vesting the roles of Chairman and Chief Executive Officer in the same person facilitates the execution of the Group's business strategies and maximizes effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider the appropriate adjustment should suitable circumstance arise.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct for securities transactions and dealing (the Code of Conduct) by directors on terms no less exacting than the required standard set out in Appendix 10 to Listing Rule. Specific enquiry has been made to all directors of the Company who have confirmed their compliance with the Code of Conduct regarding securities transactions during the year under review.

ACCOUNTABILITY AND AUDIT

The directors acknowledge their responsibility for preparing the representations contained in the financial statements of the Group for the year under review. The directors consider that the financial statements have been prepared in conformity with the generally accepted accounting standards in Hong Kong saved the accounting treatment on an investment in subsidiary as detailed in the consolidated financial statements. Having made appropriate enquiries, the directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern.

CORPORATE GOVERNANCE REPORT

The financial statements of the Company for the year ended 31 December 2007 have been reviewed by the Audit Committee and audited by the external auditors, Messrs. Deloitte Touche Tohmatsu. For the year ended 31 December 2007, the audit fee was approximately HK$2,001,000 and the non-audit service fee was HK$10,500 (for tax filing). The responsibilities of the external auditors with respect to financial reporting are set out in the section of "Report of the Auditors".

SALARY REVIEW COMMITTEE

The Salary Review Committee comprising five members with a majority of INEDS, namely Mr. Pang Chor Fu, Professor Li Weian, and Mr. Lee Kit Wah, Mr. Wang Zhiqiang and Mr. Wang Nengguang and is chaired by Mr. Pang Chor Fu, which meets at least once a year.

The primary objectives of Salary Review Committee, inter alia, is to formulate the remuneration policy based on the responsibilities, qualifications and working performance of senior management and directors; review and recommend the Board the annual remuneration policy. The major objective of the remuneration policy is to ensure that the Company is able to attract, retain, and motivate a high-calibre team which is essential to the success of the Company.

No Directors and executives can determine his own remuneration. During the year under review, the Salary Review Committee has held one meeting for review and approval of the remuneration policy of the Group. Minutes of Salary Review Committee Meeting are kept by a duly appointed secretary of the meeting. Draft and final versions of minutes of the meeting are sent to all members of the Committee for their comment and records respectively, in both cases within a reasonable time after the meeting.

During the year, one meeting regarding the remuneration policy review was held, and details of the attendance of the meeting are as follows:

	Directors' Attendance
Mr. Wang Zhiqiang (Chairman & CEO)	1/1
Mr. Wang Nengguang	1/1
Mr. Lee Kit Wah	1/1
Professor Li Weian	1/1
Mr. Pang Chor Fu	1/1

AUDIT COMMITTEE

The audit committee has three members comprising, namely Mr. Lee Kit Wah, Mr. Pang Chor Fu, and Professor Li Weian. All of them are independent Non-Executive Directors and none of them are members of the former or existing auditors of the Company. The audit committee held two meetings during the year which were chaired by Mr. Lee Kit Wah who is a qualified accountant. The Board considers the audit committee has extensive commercial experience in business, financial and legal matters. The primary duties of the Audit Committee include, inter alia, to review and monitor financial reporting and the judgements contained therein; and to review financial and internal controls, accounting policies and practices with management and external auditors.

CORPORATE GOVERNANCE REPORT

The Audit Committee has reviewed and discussed with the management the accounting principles and practice adopted by the Group and auditing, internal controls and financial reporting matters. The audited financial statements of the Group for the financial year ended 31 December 2007 have been reviewed by the Audit Committee.

The Audit Committee held two meetings during the year, which were attended by the external auditors, Deloitte Touche Tohmatsu. Details of the attendance of the Audit Committee Meetings are as follows:

	Directors' Attendance
Mr. Lee Kit Wah	2/2
Professor Li Weian	2/2
Mr. Pang Chor Fu	2/2

INTERNAL CONTROL

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group. The Board has delegated to the management the implementation of such systems of internal controls as well as the review of relevant financial, operational and compliance controls and risk management procedures. The management of the Group has reviewed the Group's internal control and risk management system for the year ended 31 December 2007 and had submitted the results of the review and its recommendations and opinions for consideration by the audit committee and the board.

INVESTOR RELATIONS

During the year under review, the Group has proactively enhanced its corporate transparency and communications with its shareholders and the investment community through its mandatory interim and final reports, and timely distribution of press releases. The corporate website of the Company has provided an effective communication platform to keep the public abreast of its latest developments. Regular meetings and visits have been organised to enhance understanding of the institutional investors and analysts on Group's business and operations.

COMMUNICATION WITH SHAREHOLDRES

The annual general meeting provides a useful forum for shareholders to exchange views with the Board. The members of the Board are pleased to answer shareholders' questions.

Separate resolutions are proposed at general meetings on each substantially separate issue. Details of poll voting procedures and the rights of shareholders to demand a poll are included in the circular to shareholders dispatched together with the annual report. The circular also includes relevant details of proposed resolutions.

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE SHAREHOLDERS OF SINOCOM SOFTWARE GROUP LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of SinoCom Software Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 30 to 82, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except as described in the basis for qualified opinion paragraph, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

BASIS FOR QUALIFIED OPINION

Included in the consolidated balance sheet as at 31 December 2006 is the investment cost of a subsidiary of HK$8,015,000 which was disposed of during the year ended 31 December 2007. As explained in note 18 to the consolidated financial statements, the directors of the Company were unable to account for the acquisition using the purchase method of accounting at the time of its acquisition and consolidate the post-acquisition results and financial position of the subsidiary in accordance with Hong Kong Financial Reporting Standard ("HKFRS") 3 "Business Combinations" and Hong Kong Accounting Standard ("HKAS") 27 "Consolidated and Separate Financial Statements" issued by the HKICPA respectively due to the absence of reliable financial information for the subsidiary. In addition, information in relation to the acquisition of the subsidiary during the year ended 31 December 2006 has not been presented in the consolidated financial statements as required by HKFRS 3 and HKAS 7 "Cash Flow Statements". The non-consolidation of this subsidiary would affect the net assets of the Group as at 31 December 2006, its profit for the years ended 31 December 2006 and 2007, and the related disclosures in the consolidated financial statements. It is not practicable to quantify the effects of the departure from these requirements.

The above departures from HKAS 7, HKAS 27 and HKFRS 3 caused us to qualify our audit opinion on the consolidated financial statements in respect of the year ended 31 December 2006.

QUALIFIED OPINION ARISING FROM DISAGREEMENT ABOUT ACCOUNTING TREATMENT AND THE EXTENT OF DISCLOSURES

In our opinion, except for the effect on the consolidated financial statements of the failure to account for the post acquisition results and the resulting gain or loss on the disposal of the subsidiary in the current year and the effect on the comparative figures of the departures from HKAS 7, HKAS 27 and HKFRS 3 as described in the basis for qualified opinion paragraphs, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
24 April 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Revenue	5 & 6	**564,507**	377,433
Cost of services		**(340,999)**	(219,548)
Gross profit		**223,508**	157,885
Other income	7	**13,512**	4,703
Discount on acquisition of additional equity interest in a subsidiary		**322**	—
Loss on disposal of subsidiaries	28	**(504)**	—
Share of loss of an associate	17	**(75)**	(104)
Impairment loss on an investment	8	**(7,048)**	—
Administrative expenses		**(91,199)**	(76,353)
Interest expenses on bank borrowings within five years		**(25)**	(26)
Profit before taxation		**138,491**	86,105
Taxation	9	**(20,839)**	(11,668)
Profit for the year	10	**117,652**	74,437
Profit attributable to:			
Equity holders of the Company		**115,474**	73,308
Minority interests		**2,178**	1,129
		117,652	74,437
Earnings per share	14		
— Basic		**10.48 cents**	6.73 cents
— Diluted		**10.30 cents**	6.54 cents

CONSOLIDATED BALANCE SHEET

At 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Plant and equipment	15	**19,332**	15,338
Goodwill	16	**8,537**	7,956
Interest in an associate	17	**1,893**	1,968
Investment in an unconsolidated subsidiary	18	**—**	8,015
Other deposits	19	**6,069**	4,861
		35,831	38,138
Current assets			
Trade and other receivables	20	**107,128**	84,716
Amounts due from related parties	21	**161**	361
Amount due from an unconsolidated subsidiary	18	**—**	121
Bank balances and cash	22	**444,607**	315,840
		551,896	401,038
Current liabilities			
Trade and other payables	23	**70,692**	39,054
Amount due to a related party	21	**12**	12
Bank borrowings	24	**—**	294
Tax liabilities		**11,287**	6,564
		81,991	45,924
Net current assets		**469,905**	355,114
		505,736	393,252
Capital and reserves			
Share capital	25	**27,718**	27,417
Reserves		**472,792**	356,917
Equity attributable to equity holders of the Company		**500,510**	384,334
Minority interests		**5,226**	8,692
Total equity		**505,736**	393,026
Non-current liabilities			
Bank borrowings	24	**—**	226
		505,736	393,252

The consolidated financial statements on pages 30 to 35 were approved and authorised for issue by the Board of Directors on 24 April 2008 and are signed on its behalf by:

Wang Zhiqiang
DIRECTOR

Wang Xubing
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Attributable to equity holders of the Company											
	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	Minority interests 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, representing total income recognised directly in equity	–	–	–	–	–	–	7,852	–	–	7,852	91	7,943
Profit for the year	–	–	–	–	–	–	–	–	73,308	73,308	1,129	74,437
Total recognised income and expense for the year	–	–	–	–	–	–	7,852	–	73,308	81,160	1,220	82,380
Contribution from minority shareholders	–	–	–	–	–	–	–	–	–	–	1,088	1,088
Acquisition of additional equity interest in a subsidiary	–	–	–	–	–	–	–	–	–	–	(736)	(736)
Exercise/forfeiture of share options	400	12,218	–	–	–	–	–	(2,869)	256	10,005	–	10,005
Recognition of equity-settled share-based payments expense	–	–	–	–	–	–	–	10,709	–	10,709	–	10,709
Transfer	–	–	–	–	8,529	–	–	–	(8,529)	–	–	–
Dividend paid	–	–	–	–	–	–	–	–	(29,718)	(29,718)	–	(29,718)
Balance at 31 December 2006	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, representing total income recognised directly in equity	–	–	–	–	–	–	24,865	–	–	24,865	196	25,061
Profit for the year	–	–	–	–	–	–	–	–	115,474	115,474	2,178	117,652
Total recognised income and expense for the year	–	–	–	–	–	–	24,865	–	115,474	140,339	2,374	142,713
Contribution from a minority shareholder	–	–	–	–	–	–	–	–	–	–	127	127
Acquisition of additional equity interest in a subsidiary	–	–	–	–	–	–	–	–	–	–	(5,722)	(5,722)
Disposal of a subsidiary	–	–	–	–	–	–	(34)	–	–	(34)	(185)	(219)
Exercise/forfeiture of share options	301	9,258	–	–	–	–	–	(2,631)	597	7,525	–	7,525
Recognition of equity-settled share-based payments expense	–	–	–	–	–	–	–	8,928	–	8,928	–	8,928
Transfer	–	–	–	–	145	–	–	–	(145)	–	–	–
Dividend paid	–	–	–	–	–	–	–	–	(40,582)	(40,582)	(60)	(40,642)
Balance at 31 December 2007	27,718	152,464	10,657	5,078	24,906	2,726	35,216	16,140	225,605	500,510	5,226	505,736

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 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 therefor.

Note 2: The other reserve of the Group represents the capitalisation of general reserve fund and enterprise expansion fund in SinoCom 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.

CONSOLIDATED CASH FLOW STATEMENT

For The Year Ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
OPERATING ACTIVITIES			
Profit before taxation		**138,491**	86,105
Adjustments for:			
Depreciation of plant and equipment		**5,712**	4,175
Loss on disposal of plant and equipment		**48**	21
Loss on disposal of subsidiaries		**504**	—
Discount on acquisition of additional equity interest in a subsidiary		**(322)**	—
Share-based payments expense		**8,928**	10,709
Share of loss of an associate		**75**	104
Impairment loss on an investment		**7,048**	—
Interest income		**(4,802)**	(3,398)
Interest expenses		**25**	26
Operating cash flows before movements in working capital changes		**155,707**	97,742
Increase in trade and other receivables		**(17,582)**	(28,655)
Increase in other deposits		**(1,208)**	(2,220)
Increase in trade and other payables		**28,529**	11,806
Decrease (increase) in amounts due from related parties		**200**	(127)
Decrease (increase) in amount due from an unconsolidated subsidiary		**121**	(121)
Cash generated from operations		**165,767**	78,425
Tax paid		**(16,023)**	(8,831)
Interest received		**4,802**	3,398
NET CASH FROM OPERATING ACTIVITIES		**154,546**	72,992

CONSOLIDATED CASH FLOW STATEMENT

For The Year Ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
INVESTING ACTIVITIES			
Purchases of plant and equipment		**(9,357)**	(8,236)
Acquisition of subsidiaries	18	**—**	(8,015)
Acquisition of additional equity interest in a subsidiary	27	**(3,240)**	(2,336)
Investment in an associate	17	**—**	(2,072)
Disposal of subsidiaries	28	**7,272**	—
Proceeds from disposal of plant and equipment		**652**	123
Deposit for acquisition of an investment		**(5,256)**	—
NET CASH USED IN INVESTING ACTIVITIES		**(9,929)**	(20,536)
FINANCING ACTIVITIES			
Dividend paid		**(40,582)**	(29,718)
Dividend paid to minority shareholders		**(60)**	—
Repayments of bank borrowings		**(520)**	(303)
Interest paid		**(25)**	(26)
Proceeds from issue of shares upon exercise of share options		**7,525**	10,005
Contribution from minority shareholders		**127**	1,088
NET CASH USED IN FINANCING ACTIVITIES		**(33,535)**	(18,954)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**111,082**	33,502
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**315,840**	283,945
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**17,685**	(1,607)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, REPRESENTED BY BANK BALANCES AND CASH		**444,607**	315,840

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 holding company is China Way International Limited (incorporated in the British Virgin Islands), which is also its ultimate holding company. 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 ("RMB"). The consolidated financial statements are presented in Hong Kong dollars ("HKD"), 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 NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, 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
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) — Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) — Int 8	Scope of HKFRS 2
HK(IFRIC) — Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) — Int 10	Interim Financial Reporting and Impairment

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

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

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC) — Int 11	HKFRS 2: Group and Treasury Share Transactions[3]
HK(IFRIC) — Int 12	Service Concession Arrangements[4]
HK(IFRIC) — Int 13	Customer Loyalty Programmes[5]
HK(IFRIC) — Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 March 2007
[4] Effective for annual periods beginning on or after 1 January 2008
[5] Effective for annual periods beginning on or after 1 July 2008

The adoption of HKFRS 3 (revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (revised) will affect the accounting treatment on changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new and revised standards or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below. The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

All 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 businesses 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 Business Combinations 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 contingent 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.

Goodwill

Goodwill arising on an acquisition of a business 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 business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

Capitalised goodwill arising on an acquisition of a business 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 the relevant cash-generating unit, 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. If the Group's additional interest in the book value of net assets acquired exceeds the fair value of the consideration at the date of acquisition, the excess is credited to the consolidated income statement.

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.

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 associates, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Government subsidies are recognised when the Group's right to receive the subsidy have been established. Subsidies related to expense items are recognised as income in the same period as those expenses are charged in the consolidated income statement and are reported separately as "other income".

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.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's entities are translated into the presentation currency of the Group (i.e. HKD) 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.

Goodwill arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

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

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 contributions.

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 consolidated 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 classified into one of the two categories, including financial assets at fair value through profit or loss ("FVTPL") and loans and receivable. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

Financial assets at fair value through profit or loss

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated as at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Loans and receivables

Loans and receivables 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, loans and receivable (including trade and other receivables, amounts due from related parties, amount due from an unconsolidated subsidiary, other deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition of the financial assets, the estimated future cash flows of the financial assets have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer counterparty; or
- default or delinquency in interest or principle payment; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payment.

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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

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 accounting policies adopted in respect of financial liabilities and equity instruments are set out below:

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

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 forfeited after the vesting date or 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 2007, the carrying amount of goodwill is HK$8,537,000. Details of the recoverable amount calculation are disclosed in note 16.

5. REVENUE

	2007 HK$'000	2006 HK$'000
Outsourcing software development services	**566,947**	363,818
Technical support services	**22,805**	29,757
	589,752	393,575
Business tax and local government levies	**(25,245)**	(16,142)
	564,507	377,433

6. 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 2007, 96.13% (2006: 92.44%) of gross revenue are generated from outsourcing software development services, 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 PRC and Japan. The Group's primary format for reporting segment information is geographical segment by location of customers.

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

The following table provides an analysis of the Group's sales by geographical market based on location of customers, irrespective of the origin of the services:

Year ended 31 December 2007

	PRC HK$'000	Japan HK$'000	Consolidated HK$'000
Income statement			
Revenue	48,811	515,696	564,507
Segment results	10,402	133,438	143,840
Share of loss of an associate	(75)	—	(75)
Impairment loss on an investment	(7,048)	—	(7,048)
Discount on acquisition of additional equity interest in a subsidiary	322	—	322
Loss on disposal of subsidiaries	—	(504)	(504)
Unallocated other income			13,512
Unallocated corporate expenses			(11,531)
Interest expenses on bank borrowings within five years			(25)
Profit before taxation			138,491
Taxation			(20,839)
Profit for the year			117,652

	PRC HK$'000	Japan HK$'000	Consolidated HK$'000
Balance sheet			
Segment assets	35,894	104,557	140,451
Interest in an associate	1,893	—	1,893
Unallocated corporate assets			445,383
			587,727
Segment liabilities	9,673	55,310	64,983
Unallocated corporate liabilities			17,008
			81,991

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

	PRC HK$'000	Japan HK$'000	Corporate HK$'000	Consolidated HK$'000
Other information				
Additions to plant and equipment	1,409	7,313	635	9,357
Depreciation	820	4,492	400	5,712
Loss on disposal of plant and equipment	45	3	—	48

Year ended 31 December 2006

	PRC HK$'000	Japan HK$'000	Consolidated HK$'000
Income statement			
Revenue	40,601	336,832	377,433
Segment results	12,614	77,897	90,511
Share of loss of an associate	(104)	—	(104)
Unallocated other income			4,703
Unallocated corporate expenses			(8,979)
Interest expenses on bank borrowings within five years			(26)
Profit before taxation			86,105
Taxation			(11,668)
Profit for the year			74,437

	PRC HK$'000	Japan HK$'000	Consolidated HK$'000
Balance sheet			
Segment assets	17,360	92,792	110,152
Interest in an associate	1,968	—	1,968
Unallocated corporate assets			327,056
			439,176
Segment liabilities	3,748	34,816	38,564
Unallocated corporate liabilities			7,586
			46,150

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

	PRC HK$'000	Japan HK$'000	Corporate HK$'000	Consolidated HK$'000
Other information				
Additions to plant and equipment	1,215	6,464	557	8,236
Depreciation	644	3,249	282	4,175
Loss on disposal of plant and equipment	21	—	—	21

Certain figures for the year ended 31 December 2006 have been reclassified to conform with the current year segment presentation.

7. OTHER INCOME

	2007 **HK$'000**	2006 HK$'000
Interest income	**4,802**	3,398
Government subsidies	**642**	195
Gain on sale of held-for-trading equity securities	**6,534**	—
Others	**1,534**	1,110
	13,512	4,703

Government subsidies include government concession on levies of HK$642,000 (2006: HK$159,000).

8. IMPAIRMENT LOSS ON AN INVESTMENT

On 14 March 2006, SinoCom Holdings (BVI) Limited ("SinoCom BVI"), a wholly owned subsidiary, entered into a sale and purchase agreement (the "Agreement") with Mr. Jiang Xiufeng ("Jiang"), an independent third party, 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 to be satisfied in cash. A deposit of RMB1,800,000 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. On 15 September 2006, SinoCom BVI informed Jiang for the termination of the Agreement since, among others, one of the certain conditions was not fulfilled. Jiang did not accept the termination and applied an arbitration to the China International Economic and Trade Arbitration Commission ("CIETAC") in November 2006 against SinoCom BVI for specific performance of the Agreement. Jiang requested SinoCom BVI to pay him the remaining acquisition consideration amounting to RMB4,800,000 and legal costs and other expenses incurred.

At 31 December 2006, the deposit paid of RMB1,800,000 was classified under current assets at that time since the directors of the Company did not consider there would be an unfavorable judgment against SinoCom BVI in the arbitration and the deposit paid would be recoverable in 2007 (see note 20).

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

On 30 September 2007, CIETAC ruled that the request by SinoCom BVI to terminate the Agreement was rejected and SinoCom BVI should pay Jiang the remaining acquisition consideration of RMB4,800,000 and legal costs and other expenses incurred of RMB1,174,000 with immediate effect of which SinoCom BVI has settled in October 2007.

At 31 December 2007, the relevant legal procedures for transfer of ownership was not completed. SinoCom BVI had no significant influence in Beijing Jbridge, although the acquisition consideration has been paid amounting to a total of RMB6,600,000 (equivalent to approximately HK$7,048,000).

The directors of the Company assessed the recoverable amount of the deposits and determined that the investment cost was fully impaired as at 31 December 2007 and the amount was charged to the consolidated income statement.

9. TAXATION

	2007 HK$'000	2006 HK$'000
PRC Enterprise Income Tax	**13,844**	9,345
Japan income tax	**5,666**	2,323
Underprovision of Japan income tax in respect of prior year	**1,329**	—
	20,839	11,668

SinoCom Beijing has been recognised as a high and new technology enterprise by relevant PRC government authorities since 26 September 1995. Pursuant to the Income Tax Laws, on 18 November 1996, the External Branch of State Tax Authority in Beijing granted approval to SinoCom Beijing to enjoy the reduced state Enterprise Income Tax rate of 15%. In addition, SinoCom Beijing is subject to a more favorable income tax rate of 10% pursuant to relevant PRC regulations as the annual export revenue of its software development business is more than 70% of SinoCom Beijing's total annual income.

SinoCom-Artm Technology Limited ("SinoCom-Artm Technology"), a subsidiary of the Company, is recognised as a high and new technology 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 high and new technology enterprise by the relevant PRC government authorities since 30 June 2005. Pursuant to the Income Tax Laws, Shensoft Shanghai was exempted for PRC income tax for two years for the period from 1 January 2006 to 31 December 2007 and followed by a 50% reduction in the next three years.

Other PRC subsidiaries of the Group are eligible for tax holidays and concession and were exempted from PRC Enterprise Income Taxes as follows:

(a) Exemption for PRC Enterprise 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.

9. TAXATION (Continued)

On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council issued Implementation Regulations of the New Law. Under the New Law and Implementation Regulations, most PRC subsidiaries of the Group will adopt unified income tax rate of 25% from 1 January 2008. However, entities that qualify as high and new technology enterprises supported by the PRC government are expected to benefit from a tax rate of 15% as compared to the uniform tax rate of 25%. The existing preferential tax holidays and concession granted to certain PRC subsidiaries of the Group will not be continued until these subsidiaries receive official approval for the tax holidays and concession.

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

Taxation arising in Japan is calculated at a progressive statutory rate of 22% on the portion of taxable income not exceeding Japanese Yen ("JPY") 8,000,000 (equivalent to approximately HK$547,000, 2006: HK$523,000) and 30% on the portion of taxable income in excess of JPY8,000,000.

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

	2007 **HK$'000**	2006 HK$'000
Profit before taxation	**138,491**	86,105
Taxation at the applicable PRC Enterprise Income Tax rate of 15%	**20,774**	12,916
Tax effect of expenses that are not deductible in determining taxable profit	**3,656**	2,599
Effect of tax exemptions granted to PRC subsidiaries	**(1,751)**	(324)
Effect of tax concessions granted to a PRC subsidiary	**(6,846)**	(4,739)
Underprovision in respect of prior year	**1,329**	—
Effect of different tax rates of subsidiaries operating in other jurisdiction	**3,677**	1,216
Tax expense	**20,839**	11,668

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 has been arrived at after charging:

	2007 HK$'000	2006 HK$'000
Auditors' remuneration	2,001	1,547
Net foreign exchange loss	4,548	10,222
Depreciation of plant and equipment	5,712	4,175
Loss on disposal of plant and equipment	48	21
Staff costs:		
Directors' emoluments	11,175	7,896
Other staff costs		
— Salaries and other benefits	260,325	180,458
— Share-based payments expense	8,928	10,709
— Retirement benefits schemes contributions	16,940	12,760
	297,368	211,823

11. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the four (2006: four) directors were as follows:

	Wang Zhiqiang HK$'000	Wang Xubing HK$'000	Siu Kwok Leung HK$'000	Shi Chongming HK$'000	Total HK$'000
2007					
Salaries and other benefits	1,647	1,647	1,121	1,347	5,762
Retirement benefits scheme contribution	22	22	—	75	119
Bonus (Note)	1,853	1,853	529	1,059	5,294
Total emoluments	3,522	3,522	1,650	2,481	11,175
2006					
Salaries and other benefits	2,515	2,515	1,169	1,591	7,790
Retirement benefits scheme contribution	19	19	—	68	106
Total emoluments	2,534	2,534	1,169	1,659	7,896

Note: Bonus is determined by the Salary Review Committee with reference to the performance of the Group.

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 (2006: four) were directors of the Company whose emoluments are included in the disclosure in note 11 above. The emoluments of the remaining one (2006: one) individual were as follows:

	2007 **HK$'000**	2006 HK$'000
Salaries and other benefits	**805**	761
Retirement benefits schemes contributions	**77**	78
	882	839

13. DIVIDENDS

On 27 May 2007, a final dividend of HK3.70 cents per share (total dividend HK$40,582,000) in respect of the financial year ended 31 December 2006 was paid to the shareholders. On 19 May 2006, a final dividend of HK2.75 cents per share, as adjusted for the Share Subdivision set out in note 25 (total dividend HK$29,718,000) in respect of the financial year ended 31 December 2005 was paid to the shareholders.

In respect of the financial year ended 31 December 2007, the directors propose a final dividend of HK5.60 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:

	2007 HK$'000	2006 HK$'000
Earnings		
Profit for the year attributable to equity holders of the Company	**115,474**	73,308

Number of shares

	2007 '000	2006 '000
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,101,847**	1,089,697
Effect of dilutive potential ordinary shares: Share options issued by the Company	**19,323**	30,687
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,121,170**	1,120,384

The weighted average number of ordinary shares for the purpose of basic earnings per share for 2006 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 2006	13,353	2,589	3,459	19,401
Exchange adjustments	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
Exchange adjustments	1,580	364	381	2,325
Additions	5,896	1,690	1,771	9,357
Disposals	(1,324)	—	(839)	(2,163)
At 31 December 2007	24,647	6,221	5,225	36,093
ACCUMULATED DEPRECIATION				
At 1 January 2006	5,135	1,618	1,681	8,434
Exchange adjustments	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
Exchange adjustments	902	176	198	1,276
Provided for the year	3,489	693	1,530	5,712
Disposals	(624)	—	(839)	(1,463)
At 31 December 2007	11,405	2,984	2,372	16,761
CARRYING VALUES				
At 31 December 2007	13,242	3,237	2,853	19,332
At 31 December 2006	10,857	2,052	2,429	15,338

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 2006	6,290
Exchange adjustments	66
Arising on acquisition of additional equity interest in a subsidiary (note 27)	1,600
At 31 December 2006	7,956
Exchange adjustments	581
At 31 December 2007	8,537

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. The carrying amount of goodwill had been allocated as follows:

	2007 HK$'000	2006 HK$'000
Outsourcing software service		
SinoCom-Artm Technology	**2,380**	2,218
SinoCom Shensoft Holdings (BVI) Limited ("SinoCom Shensoft")	**6,157**	5,738
	8,537	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 2007, 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% (2006: 18%). Cash flows beyond one-year period are extrapolated using growth rates of 13% (2006: 13%) over the projected period of five years for impairment assessment purpose. 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 calculation and the budgeted gross margins, which are determined based on the CGUs' past performance and management's expectations for the market development.

17. INTEREST IN AN ASSOCIATE

	2007 HK$'000	2006 HK$'000
Cost of investment in an unlisted associate	2,072	2,072
Share of post-acquisition loss	(179)	(104)
	1,893	1,968

As at 31 December 2007 and 2006, the Group had interest 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:

	2007 HK$'000	2006 HK$'000
Total assets	6,448	6,624
Total liabilities	(137)	(65)
Net assets	6,311	6,559
Group's share of net assets of the associate	1,893	1,968
Revenue	1,579	491
Loss for the year	(248)	(347)
Group's share of loss of the associate for the year	(75)	(104)

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

	2007	2006
	HK$'000	HK$'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 JPY120,000,000 (equivalent to approximately HK$8,015,000).

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 disposed of during the year ended 31 December 2007. Further details of disposal are set out in note 28.

The amount due from MIS was unsecured, interest-free, and fully settled during the year ended 31 December 2007.

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.

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20. TRADE AND OTHER RECEIVABLES

	2007 HK$'000	2006 HK$'000
Trade receivables	**88,398**	64,545
Other debtors	**13,678**	7,730
Impairment loss on an investment (note 8)	**—**	1,792
Other deposits	**3,310**	8,156
Prepayments	**1,742**	2,493
Total trade and other receivables	**107,128**	84,716

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

	2007 HK$'000	2006 HK$'000
0-30 days	**80,257**	46,991
31-60 days	**6,723**	10,250
61-90 days	**397**	3,434
91-180 days	**1,021**	3,403
Over 180 days	**—**	467
	88,398	64,545

The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimize credit risk. Overdue balances are reviewed regularly by senior management. The management considered the recoverability of trade receivables that are neither past due nor impaired is beyond doubt.

Included in the Group's trade receivable balance are debtors with a carrying amount of HK$1,269,000 (2006: HK$5,045,000) which are past due at the balance sheet date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 123 days (2006: 125 days).

20. TRADE AND OTHER RECEIVABLES (Continued)

Ageing of trade receivables which are past due but not impaired

	2007 HK$'000	2006 HK$'000
61-90 days	248	1,175
91-180 days	1,021	3,403
Over 180 days	—	467
	1,269	5,045

The Group's trade and other receivables denominated in foreign currencies at the balance sheet date are as follows:

	2007 HK$'000	2006 HK$'000
JPY	1,398	6,174
HKD	223	130

21. AMOUNTS DUE FROM/TO RELATED PARTIES

	2007 HK$'000	2006 HK$'000
Amount due from an associate	161	127
Amount due from a director (Note)	—	231
Amount due from a shareholder	—	3
	161	361
Amount due to a shareholder	12	12

Note: The maximum amount outstanding during the year is HK$231,000 (2006: HK$231,000).

The amounts due from an associate, a director and a shareholder are unsecured, interest-free and recoverable within one year. The amount due to a shareholder is unsecured, interest-free and repayable on demand.

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 0.001% to 5.25% (2006: 0.3% to 4.5%) per annum.

The Group's bank balances and cash denominated in foreign currencies at the balance sheet date are follows:

	2007 HK$'000	2006 HK$'000
United States Dollar ("USD")	**88,372**	28,078
JPY	**33,812**	187,626
HKD	**13,163**	51,809

23. TRADE AND OTHER PAYABLES

	2007 HK$'000	2006 HK$'000
Trade creditors	**2,876**	1,643
Wages and salaries payable	**39,206**	23,136
Accruals	**3,874**	3,209
Other tax payables	**17,417**	8,900
Payable for outstanding consideration for acquisition of additional equity interest in a subsidiary (note 27)	**2,160**	—
Other payables	**5,159**	2,166
	70,692	39,054

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

	2007 HK$'000	2006 HK$'000
0-30 days	**1,432**	1,129
31-60 days	**1,365**	502
61-90 days	**33**	12
91-180 days	**26**	—
Over 180 days	**20**	—
	2,876	1,643

23. TRADE AND OTHER PAYABLES (Continued)

The Group's trade and other payables denominated in foreign currency at the balance sheet date is as follows:

	2007 HK$'000	2006 HK$'000
HKD	**1,531**	271

24. BANK BORROWINGS

	2007 HK$'000	2006 HK$'000
Unsecured bank loans	**—**	520

The unsecured bank loans are repayable as follows:

	2007 HK$'000	2006 HK$'000
On demand or within one year	**—**	294
In the second year	**—**	226
	—	520
Less: Amount due within one year shown under current liabilities	**—**	294
	—	226

The carrying amounts of the Group's borrowings are denominated in JPY, the functional currency of respective subsidiary. The range of effective interest rates (which are also equal to contract interest rates) on the Group's borrowings outstanding as at the balance sheet date are as follows:

	2007	2006
Fixed-rate bank loans	**N/A**	2%-2.5% per annum

The unsecured bank loans were fully repaid during the year ended 31 December 2007.

25. 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 each, at 31 December 2006 and 31 December 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)	12,040	301
At 31 December 2007	1,108,719	27,718

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) 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 (see note 26).

(iii) During the year ended 31 December 2007, share options to subscribe for 12,040,000 ordinary shares of HK$0.025 each were exercised 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 2007, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 57,554,000 (as adjusted after Share Subdivision) (2006: 56,184,000), representing 5.19% (2006: 5.12%) 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	Vesting period	Original exercise price	Exercise price as adjusted after Share Subdivision
10/11/2004	10/11/2004-09/05/2008	HK$2.50	HK$0.625
24/01/2006	24/01/2006-23/01/2010	HK$5.55	HK$1.3875
15/01/2007	15/01/2007-14/01/2011	HK$1.73	N/A

26. SHARE OPTION SCHEME (Continued)

The following table discloses movements of the number of the Company's shares under options held by employees during the year:

Date of grant	Outstanding at 01/01/2007	Granted during year	Exercised during year	Forfeited during year	Outstanding at 31/12/2007
10/11/2004	36,064,000	—	(12,040,000)	(540,000)	23,484,000
24/01/2006	20,120,000	—	—	(2,080,000)	18,040,000
15/01/2007	—	17,050,000	—	(1,020,000)	16,030,000
	56,184,000	17,050,000	(12,040,000)	(3,640,000)	57,554,000

The following table discloses movements of the number of the Company's shares under options held by employees during prior year:

Date of grant	Outstanding at 01/01/2006	Granted during year	Change upon Share Subdivision (Note)	Exercised during year (as adjusted after Share Subdivision)	Forfeited during year (as adjusted after Share Subdivision)	Outstanding at 31/12/2006
10/11/2004	13,128,000	—	39,384,000	(16,008,000)	(440,000)	36,064,000
24/01/2006	—	5,130,000	15,390,000	—	(400,000)	20,120,000
	13,128,000	5,130,000	54,774,000	(16,008,000)	(840,000)	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 on 24 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 semi-anniversary of the date of grant, being 10 May 2005 to 9 November 2014 (both days inclusive), in the following manner:

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

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

(c) a further 25% of the option will be exercisable at any time on or after the first anniversary of the first semi-anniversary 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), 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 fourth anniversary of the date of grant up to and including 23 January 2016.

26. SHARE OPTION SCHEME (Continued)

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 2008 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;

(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.

At 31 December 2007, 11,224,000 (2006: 1,844,000) share options are exercisable. The closing price of the Company's shares immediately before 10 November 2004, 24 January 2006 and 15 January 2007, the date of grant of options, was HK$2.50, HK$5.55 and HK$1.73 respectively.

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 2007 was HK$1.62 (2006: HK$2.38).

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 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.

26. SHARE OPTION SCHEME (Continued)

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

Grant date	15 January 2007	24 January 2006	10 November 2004
Exercise price	HK$1.73	HK$5.55	HK$2.50
Expected life	6.25 years	6.25 years	4 years
Expected volatility	42%	44%	39%
Expected dividend yield	2.5%	2.5%	2.5%
Risk free rate	3.85%	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.

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27. ACQUISITION OF ADDITIONAL EQUITY INTEREST IN SUBSIDIARIES

In August 2006, the Group entered into an agreement to acquire a further 20% 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.

In February 2007, the Group entered into an agreement to acquire a further 45% equity interest in an existing non-wholly subsidiary, SinoCom Shensoft, which is incorporated in British Virgin Islands and is the holding company of Shensoft Shanghai and Shensoft Computer Technology Co., Limited ("Shensoft Japan"), companies principally engaged in the provision of software development outstanding services to customers in Japan, from the minority owner of the subsidiary for a cash consideration of HK$5,400,000 of which HK$3,240,000 and HK$1,080,000 were paid in February 2007 and in January 2008, respectively, while the remaining consideration of HK$1,080,000 is to be paid before 31 December 2008. 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 recognised in the consolidated income statement.

28. DISPOSAL OF SUBSIDIARIES

On 13 July 2007, SinoCom BVI entered into an agreement with IKEDA TERUO, one of the existing shareholders of MIS, to dispose of its 30% equity interest in MIS for a cash consideration of JPY48,000,000 (equivalent to approximately HK$3,060,000). 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$4,591,000). Following the completion of the disposal in August 2007, SinoCom BVI ceases to have any interest in MIS.

On 28 December 2007, SinoCom BVI entered into an agreement with Green System Co., Ltd., to dispose of its 75% equity interest in NOH Co., Limited ("NOH") for a cash consideration of JPY6,000,000 (equivalent to approximately HK$381,000). Following the completion of the disposal in December 2007, SinoCom BVI ceases to have any interest in NOH.

28. DISPOSAL OF SUBSIDIARIES (Continued)

The net assets disposed of in the transactions were as follows:

NOH

	2007 HK$'000
Net assets disposed of	
Bank balances and cash	760
Trade and other receivables	2,499
Trade and other payables	(2,426)
Tax liabilities	(93)
	740
Minority interest	(185)
Release of translation reserve	(34)
	521
Loss on disposal	(140)
Total consideration, satisfied by cash	381
Net cash outflow arising on disposal	
Cash consideration	381
Bank balances and cash disposed of	(760)
	(379)

28. DISPOSAL OF SUBSIDIARIES (Continued)

MIS

As stated in Note 18, financial information regarding MIS is not made available to the Group and hence the Group has not incorporated any financial statement of MIS into its consolidated financial statements. The effects of the disposal of MIS reflected in the consolidated financial statements are set out below.

	2007 HK$'000
Net assets disposed of	
Investment in an unconsolidated subsidiary	8,015
Loss on disposal	(364)
Total consideration, satisfied by cash	7,651
Net cash inflow arising on disposal	
Cash consideration	7,651

29. OPERATING LEASE COMMITMENTS

The Group as lessee

	2007 HK$'000	2006 HK$'000
Minimum lease payments paid under operating leases during the year in respect of office premises	36,947	23,389

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

	2007 HK$'000	2006 HK$'000
Within one year	29,884	26,298
In the second to fifth years inclusive	28,660	31,811
	58,544	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.

30. 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.

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

	2007 **HK$'000**	2006 HK$'000
Retirement benefits contributions made during the year	**17,059**	12,866

As at 31 December 2007, contributions of HK$856,000 (2006: HK$460,000) due in respect of the year ended 31 December 2007 had not been paid over the schemes. The amounts were paid over subsequent to the balance sheet date.

31. RELATED PARTY TRANSACTION

During the year ended 31 December 2006, the Group received revenue from outsourcing software development services of HK$121,000 from a subsidiary not consolidated as detailed in note 18. No such revenue was received from subsidiary for the year ended 31 December 2007. The Group also received revenue from outsourcing software development services of HK$312,000 (2006: Nil) and technical support services of HK$305,000 (2006: HK$556,000) 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.

31. RELATED PARTY TRANSACTION (Continued)

Compensation of key management personnel

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

	2007 HK$'000	2006 HK$'000
Salaries and other benefits	**20,225**	15,109
Retirement benefits schemes contributions	**722**	767
	20,947	15,876

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.

32. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT

(a) Categories of financial instruments

	2007 HK$'000	2006 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**556,223**	403,406
Financial liabilities		
Liabilities measured at amortised cost	**49,413**	27,477

The Group's major financial instruments include trade receivable, deposits and other receivables, amounts due from related parties and an unconsolidated subsidiary, bank balances and cash, trade payable, other payables, amounts due to a related party and bank borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(b) Financial risk management objectives and policies

Management monitors and manages the financial risks relating to the operations of the Group through their degree of magnitude of risks. These risks include market risk (including foreign currency risk), credit risk and liquidity risk.

(i) ***Market risk***

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. There has been no change to the Group's manner in which it manages and measures the risk.

32. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (Continued)

(b) Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

Foreign currency risk

The foreign currency risk of the Group includes the foreign exchange loss arising on the retranslation of monetary assets denominated in foreign currencies against in the functional currencies of the relevant subsidiaries.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the balance sheet date are as follows:

	Liabilities		**Assets**	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
USD	**—**	—	**88,372**	28,078
JPY	**—**	—	**35,210**	193,800
HKD	**1,531**	271	**13,386**	51,939

The sensitivity analysis below has been determined based on the exposure to a 5% increase and decrease in the functional currencies of respective subsidiaries against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes outstanding amounts of relevant subsidiaries' foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates. For a 5% strengthening of functional currencies of respective subsidiaries against the relevant foreign currencies, the profit for the year will be increased. For a 5% weakening of functional currencies of respective subsidiaries against relevant foreign currencies, there would be an equal and opposite impact on the profit for the year.

	Impact of USD		**Impact of JPY**		**Impact of HKD**	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Profit for the year	**(4,327)**	(1,342)	**(1,611)**	(9,049)	**(593)**	(2,583)

32. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (Continued)

(b) Financial risk management objectives and policies (Continued)

(ii) Credit risk

As at 31 December 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparities is arising from the carrying amount of the respective recognised financial 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 receivables 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 counterparties are banks with high credit ratings.

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

32. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (Continued)

(b) Financial risk management objectives and policies (Continued)

(iii) Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate bank balances and cash and continuously monitoring forecast and actual cash flows.

The following tables detail the Group's remaining contractual maturity for its financial liabilities which are included in the maturity analysis provided internally to the key management personnel for the purpose of managing liquidity risk. The tables reflect the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

	Weighted average effective interest rate	Within 90 days	91-120 days	121-180 days	Total Over 180 days	Total undiscounted cash flows	Total carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2007							
Trade creditors	–	2,876	–	–	–	2,876	2,876
Other payables	–	46,525	–	–	–	46,525	46,525
Amounts due to a related party	–	12	–	–	–	12	12
		49,413	–	–	–	49,413	49,413
2006							
Trade creditors	–	1,643	–	–	–	1,643	1,643
Other payables	–	25,302	–	–	–	25,302	25,302
Amounts due to a related party	–	12	–	–	–	12	12
Bank borrowings	2.28	319	–	–	226	545	520
		27,276	–	–	226	27,502	27,477

32. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (Continued)

(c) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt represented by bank borrowings and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained profits.

The directors of the Company review the capital structure of the Group on a timely basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. As at 31 December 2007 and 2006, the gearing ratio determined as the proportion of net debt (bank borrowings less cash and cash equivalents) was 0%. The Group expects to maintain this 0% gearing ratio because of its cash-rich position.

33. POST BALANCE SHEET EVENTS

On 27 March 2008, SinoCom BVI entered into an agreement to acquire a 9.75% further equity interest in an existing non-wholly owned subsidiary, Zhongxun Software Inc., Japan ("SinoCom Japan"), which is established in Japan and principally engaged in provision of outsourcing software development services, from the minority owner of SinoCom Japan, NEC Soft Ltd., for a cash consideration of JPY19,784,000 (equivalent to approximately HK$1,583,000).

On 28 January 2008, the Board of Directors approved to grant share options to eligible employees of the Company to subscribe for 16,905,000 shares at an exercise price of HK$1.36 per share on the prerequisite of acceptance of forfeiture of options granted on 15 January 2007 to the extent that have not yet been exercised.

34. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2007 and 2006 are as follows:

Name of subsidiary	Place of incorporation and operation	Class of capital held	Proportion ownership interest held by the Company				Principal activities
			Directly		Indirectly		
			2007	2006	2007	2006	
SinoCom BVI	British Virgin Islands	Ordinary shares US$3,624,502	100%	100%	–	–	Investment holding
SinoCom Japan	Japan	Ordinary shares JPY40,000,000	–	–	90.25%	90.25%	Provision of outsourcing software development services
SinoCom Beijing	PRC	Registered capital US$6,040,800	–	–	100%	100%	Provision of outsourcing software development and technical support services
SinoCom Innovative Technology Software Limited	PRC	Registered capital US$370,000	–	–	89.16%	89.16%	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				Principal activities
			Directly		Indirectly		
			2007	2006	2007	2006	
SinoCom-Artm Technology	PRC	Registered capital RMB2,500,000	–	–	80%	80%	Provision of outsourcing software development and technical support services
SinoCom Japan High Technology Software Limited	Japan	Ordinary shares JPY30,000,000	–	–	89.16%	89.16%	Provision of outsourcing software development and technical support services
Dalian SinoCom High Technology Software Limited	PRC	Registered capital HK$3,200,000	–	–	85.52%	85.52%	Provision of outsourcing software development and technical support services
Shensoft Shanghai	PRC	Registered capital US$232,000	–	–	100%	55%	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				Principal activities
			Directly		Indirectly		
			2007	2006	2007	2006	
Shensoft Japan	Japan	Registered capital JPY10,000,000	–	–	100%	55%	Provision of outsourcing software development and technical support services
SinoCom Shensoft (Note 1)	British Virgin Islands	Ordinary shares US$500,000	–	–	100%	55%	Investment holding

The form of business structure of all above subsidiaries is limited company.

Note 1: In February 2007, the Group acquired the remaining 45% of SinoCom Shensoft as detailed in note 27.

Note 2: None of the subsidiaries had issued any debt securities at 31 December 2007.

Note 3: 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.