Interim Report 2008

SinoCom

SinoCom Software Group Limited
中訊軟件集團股份有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 0299

CONTENTS

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of the Company, I would like to present the unaudited interim results of the Company and its subsidiaries (collectively as the "Group") for the six months ended 30 June 2008.

Review

During the Period under review, the runaway international oil prices; the soaring prices of commodity and produce; the looming inflationary pressure all took serious tolls on the global economy. Economically, the world was indeed under siege. The US sub-prime crisis lingered for more than a year by then, dealing a significant blow to the US economy and a credit crunch to its financial market. Stock markets fell and financial difficulties of many major US financial institutions manifested, which rippled through its trading partners in other continents, such as Japan, Europe and even China.

The Japanese market, where the Group sourced majority of its revenues, was also in its doldrums, resulting in a slowdown in its software development outsourcing activities. That had unavoidably impacted our pace of business growth during the Period, which saw a slowdown in turnover growth of 26.7%. Domestically inflationary pressure continued to make its plague, with mounting operating costs spreading to almost every industry sector. The significant increase in salary expenses dealt an even more damaging effect on the software development outsourcing industry. In order to stringently control our operating costs, new hiring was put on moratorium and efficiency was enhanced to alleviate the pressure of rising labor costs.

Future Prospects

Looking forward into the second half of the financial year, the global economic environment should remain relatively uncertain: inflationary pressure lingering; the international financial market remaining cyclical; the resultant risk of global recession looming. On the other hand, the consensus anticipation of RMB appreciation and the continuing macroeconomic control are going to be the challenges that domestic enterprises will continue to face.

Our Board foresees that the market sentiment in China for software development outsourcing shall remain challenging. Thus, we expect that a consolidation in the domestic software development outsourcing industry may become unavoidable – small and unsophisticated players may finally be phased out. Mergers and acquisitions will remain a strategy for the Group to accelerate its business development. Hence, we are keeping our eyes on the course of China's software development outsourcing market and will grasp opportunities that emerge. The Group will steadfastly continue to cultivate new markets and develop new clientele.

The Group had cash on hand of approximately HK$469 million as at June 30, 2008, with no bank borrowing. Leveraging on this strong cash position, the Board are confident that we are poised to restore to stable growth as soon as the global economy bounces back.

Finally, but not the least, I would like to extend my heartfelt appreciation to the Board and the management for their contributions and to all our staff for their strenuous efforts in contributing to the wellbeing of the Group.

By order of the board
WANG Zhiqiang
Chairman

Hong Kong, 18 September 2008

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS FOR THE PERIOD

Turnover

Turnover of the Group for the six months ended 30 June, 2008 amounted to approximately HK$327 million, representing an increase of approximately HK$69 million, or 26.7%, over the same period in 2007. Revenue was derived from outsourcing software development services and from technical support services, which accounted for approximately 95.6% and 4.4% of the total revenue respectively. Revenue from these two business segments grew at 27.9% and 6.4% respectively from the same period last year. Market segment was divided into Japan and PRC and each accounted for approximately 88.8% and 11.2% respectively. Increased revenue from Japan was mainly due to expanded business with one of the two largest customers. Top five customers accounted for approximately 80% of the total revenue. There was no change in the top two customers ranking from same period 2007 that they accounted for approximately 68% of the total revenue in aggregate.

Gross profit and cost of services

Gross profit of the Group for the Period amounted to approximately HK$109 million, remaining flat to that for the same period in 2007. Gross profit margin was approximately 33.3% which was less than the 42.3% recorded same period last year. This drop was mainly attributable to increases in cost of services.

Cost of services increased to approximately HK$218 million, representing an increase of approximately HK$69 million or 46.5%. Major costs comprised of labour costs and rents. Average headcounts during the Period was 3,458, an increment of 31.3% over that of 2,633 in same period last year. Average labour cost per head for an amount of approximately HK$8,200 during the Period, comprising salary, bonus, insurance, and welfare, increased by approximately 20.2% above that of same period last year. Rents increased as a result of additional space housing expanded headcounts.

Other income

Other income included interest income, investment income, exchange gain, and government subsidies of approximately HK$3.8 million, HK$1.4 million, HK$4 million, HK$3.1 million respectively for the Period. Government subsidies were mainly training subsidies under new policies launched to encourage software development outsourcing industry in PRC.

Operating expenses

Operating expenses during the Period decreased to approximately HK$36.9 million, representing a decrease of approximately HK$0.3 million or 0.7% over the same period in 2007. It was the management's effort to control operating expenses.

Income tax expenses

During the Period, income tax expenses for all subsidiaries in PRC other than those enjoying tax holidays were provided at 25% in accordance to the New Law. The major subsidiary in Beijing will be entitled to a favorable income tax rate at 10% when it is recognized as a key software enterprise under the State plan. That major subsidiary was recognized as such consecutively in the past few years. Potential tax expenses reduction at a lower tax rate during the Period will be approximately HK$12 million once that major subsidiary gets the qualification in the second half year in 2008.

Liquidity, financial resources and gearing ratio

Net assets

As at 30 June, 2008, the Group recorded total assets of approximately HK$618 million which were financed by liabilities of HK$78 million, minority interest of HK$4 million and equity of HK$536 million. The Group's net assets value as at 30 June, 2008 increased by 6.9% to approximately HK$541 million as compared to approximately HK$506 million as at 31 December 2007.

Liquidity

The Group had a total cash and bank balances of approximately HK$469 million as at 30 June 2008 (As at 31 December, 2007: approximately HK$445 million). The Group did not have any bank borrowings. Current ratio was 7.4 times as at 30 June 2008 (As at 31 December 2007: 6.7).

Foreign exchange exposure

The Group generates most of the revenue in Japanese Yen and incurs most of the costs in RMB. Any depreciation of Japanese Yen against RMB will result in decrease in the income of the Group, which will have an adverse impact to the Group's profitability. Due to the recurring nature of revenue in Japanese Yen inflow, the Group naturally hedges its exposure by changing accounts receivable in Japanese Yen into RMB immediately upon receipt.

Pledge of Asset

As at 30 June 2008, the Group did not pledge any of its assets to obtain banking facilities nor have any charge on its assets (As at 31 December 2007: Nil).

Contingent Liabilities

As at 30 June 2008, the Group did not have any material contingent liabilities. (As at 31 December 2007: Nil).

OUTLOOK

Growth momentum from the Group's major customers slowed down as a result of the recent recession of the finance industry in Japan under the credit crisis spread globally. The Group's focus and expertise rests on this vertical market segment and inevitably will be affected. Nevertheless, the Group is confident to sustain its business volume with moderate growth, may not be significant though, given the long term relationship established with its top two customers. New stars will be projects from the insurance industry in Japan under its current reform. Projects are being rolled out at small scale design and data input stage. The Group will solicit new business opportunities for these projects. The Group will also solicit non-finance industry projects from other system integrators in Japan. It will be a good chance to the Group to extend its customer base. At the inception, scale will be small and productivity will be low in order to picking up specific business domain knowledge. Gross profit margin may be lower than those finance industry projects. In the longer term, larger scale and better productivity will improve and hence gross margin. Scale is a key factor to control the Group's costs. The Group will continue to expand organically in accordance with the business growth trend. Further growth by means of merger and acquisition will be subject to uncertainties as to availability of suitable targets and the timing of completion. Other than acquiring companies engaged in the Japan software market, the same also applies when acquiring companies engaged in the US or in the China software markets. Nevertheless, the Group continues to keep a close eye on any acquisition opportunities on sizeable companies.

Employee and Remuneration Policies

As at 30 June 2008, total headcount of the Group reached 3,553 breaking down into 3,292 in China and 261 in Japan. Employees are remunerated based on their performance, work experience and the prevailing market rates. Performance related bonuses are granted on a discretionary basis. Other employee benefits include pension fund, insurance and medical coverage, training programs and participation in the Group's share option scheme.

Share Option Scheme

As at 30 June 2008, there were options for 44,290,000 ordinary shares of HK$0.025 each in the share capital of the Company (the "Share(s)") granted by the Company pursuant to the option scheme, as adopted by the shareholders of the Company on 2 April 2004 (the "Option Scheme"), which were valid and outstanding. No options were lapsed during the six months ended 30 June 2008.

New share options were granted under the Option Scheme during the Period, which allowed and enabled 1,200,000 units of new shares to be issued during specific of time.

Audit Committee

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

Compliance with the Code on Corporate Governance Practices

The Company is committed to maintaining a high standard of corporate governance. During the accounting period ended 30 June 2008, the Company had met the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules") except A.2.1 that Mr Wang Zhiqiang had been both the Chairman and Chief Executive Officer of the Company. The roles of the Chairman of the Board and the Chief Executive Officer were not separated because, to our belief, the separation might not enhance the Group's efficiency and business operation. The balance of power and authority is ensured by regular discussion and meetings of the Board and active participation of independent non-executive directors. The Board continues to review its practices from time to time with an aim to improve the Group's corporate governance practices so as to meet international best practice.

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

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

Purchase, Sale or Redemption of Listed Securities

During the Period, the Company has purchased 2,012,000 ordinary shares of the Company listed on and from the Stock Exchange of Hong Kong Limited.

Directors' Interest in Shares

As at 30 June 2008, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance "SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short positions which they are taken or deemed to have under such provisions of the SFO) of which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

Ordinary shares of HK$0.025 each

(a) Interests in the Company

Name of Director	Capacity/Nature of interest	No. of shares of the Company	*Note*	Approximate percentage of shareholding
Mr Wang Xubing	Interest of a controlled corporation	563,000,000 (L)	1	50.25%
Mr Wang Zhiqiang	Interest of a controlled corporation	563,000,000 (L)	2	50.25%
Dr Shi Chongming	Beneficial owner	4,043,200 (L)		0.36%
Mr Siu Kwok Leung	Beneficial owner	4,280,000 (L)		0.38%

Notes:

1. These shares are beneficially owned by China Way International Limited ("China Way"). By virtue of his 51% shareholding interest in China Way, Mr Wang Xubing is deemed or taken to be interested in the 563,000,000 shares of the Company owned by China Way for the purpose of the SFO.

2. These shares are beneficially owned by China Way. By virtue of his 49% shareholding interest in China Way, Mr Wang Zhiqiang is deemed or taken to be interested in the 563,000,000 shares of the Company owned by China Way for the purpose of the SFO.

3. The Letter "L" denotes a long position in shares.

(b) Interests in associated corporations of the Company

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

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

Save as disclosed herein, as at 30 June 2008, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

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

As at 30 June 2008, details of substantial shareholders' and other persons' (who are required to disclose their interests pursuant to Part XV of the SFO) interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO are as follows:

(a) Interests in Shares

Name of shareholder	**Capacity/Nature of interest**	**No. of shares of the Company**	*Note*	**Approximate percentage of shareholding**
China Way	Beneficial owner	563,000,000 (L)		50.25%
Wang Xubing	Interest of a controlled corporation	563,000,000 (L)		50.25%
Wang Zhiqiang	Interest of a controlled corporation	563,000,000 (L)		50.25%
Madam Zhang Yue	Interest of spouse	563,000,000 (L)	1	50.25%
Madam Yuan Yue Ling	Interest of spouse	563,000,000 (L)	2	50.25%

Notes:

1. Madam Zhang Yue is the wife of Mr Wang Xubing and is deemed to be interested in the 563,000,000 shares in which Mr Wang Xubing is deemed or taken to be interested for the purposes of the SFO.

2. Madam Yuan Yue Ling is the wife of Mr Wang Zhiqiang and is deemed to be interested in the 563,000,000 shares in which Mr Wang Zhiqiang is deemed or taken to be interested for the purposes of the SFO.

3. The letter "L" denotes a long position in shares.

(b) Short Position in Shares and Underlying Shares

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

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2008

		Six months ended 30 June	
	NOTES	**2008** **HK$'000** **(unaudited)**	2007 HK$'000 (unaudited) (Restated)
Revenue		**327,005**	258,006
Cost of services		**(218,125)**	(148,905)
Gross profit		**108,880**	109,101
Other gains (losses)		**13,089**	(14,637)
Discount on acquisition of additional equity interests in subsidiaries	16	**323**	322
Share of results of an associate		**38**	(112)
Administrative expenses		**(36,910)**	(37,185)
Interest expenses on bank borrowings within five years		**-**	(5)
Profit before taxation	4	**85,420**	57,484
Taxation	5	**(24,679)**	(8,976)
Profit for the period		**60,741**	48,508
Profit attributable to:			
Equity holders of the Company		**60,266**	47,481
Minority interests		**475**	1,027
		60,741	48,508
Earnings per share	7		
– Basic		**HK5.42 cents**	HK4.33 cents
– Diluted		**HK5.36 cents**	HK4.24 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2008

	NOTES	30 June 2008 HK$'000 (unaudited)	31 December 2007 HK$'000 (audited)
Non-current assets			
Plant and equipment	8	**21,255**	19,332
Goodwill		**9,092**	8,537
Interests in an associate		**2,205**	1,893
Other deposits		**6,926**	6,069
		39,478	35,831
Current assets			
Trade and other receivables	10	**109,256**	107,128
Amounts due from related parties	12	**787**	161
Bank balances and cash		**469,042**	444,607
		579,085	551,896
Current liabilities			
Trade and other payables	11	**56,235**	70,692
Amount due to a related party	12	**–**	12
Tax liabilities		**21,786**	11,287
		78,021	81,991
Net current assets		**501,064**	469,905
		540,542	505,736
Capital and reserves			
Share capital	13	**28,011**	27,718
Reserves		**508,283**	472,792
Equity attributable to equity holders of the Company		**536,294**	500,510
Minority interests		**4,248**	5,226
Total equity		**540,542**	505,736

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008

	Attributable to equity holders of the Company												
	Share capital HK$'000	Share premium HK$'000	Share redemption reserve 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 2007 (audited)	27,417	143,206	-	10,657	5,078	24,761	2,726	10,385	9,843	150,261	384,334	8,692	393,026
Exchange differences arising on translation of foreign operations directly recognised in equity	-	-	-	-	-	-	-	8,898	-	-	8,898	(55)	8,843
Profit for the period	-	-	-	-	-	-	-	-	-	47,481	47,481	1,027	48,508
Total recognised income and expense for the period	-	-	-	-	-	-	-	8,898	-	47,481	56,379	972	57,351
Acquisition of additional equity interest in a subsidiary	-	-	-	-	-	-	-	-	-	-	-	(5,722)	(5,722)
Contribution from a minority shareholder	-	-	-	-	-	-	-	-	-	-	-	127	127
Exercise of share options	160	4,914	-	-	-	-	-	-	(1,080)	-	3,994	-	3,994
Forfeiture of share options	-	-	-	-	-	-	-	-	(478)	478	-	-	-
Recognition of equity-settled share based payments expenses	-	-	-	-	-	-	-	-	4,773	-	4,773	-	4,773
Dividend paid	-	-	-	-	-	-	-	-	-	(40,582)	(40,582)	-	(40,582)
Balance at 30 June 2007 (unaudited)	27,577	148,120	-	10,657	5,078	24,761	2,726	19,283	13,058	157,638	408,898	4,069	412,967
Balance at 1 January 2008 (audited)	27,718	152,464	-	10,657	5,078	24,906	2,726	35,216	16,140	225,605	500,510	5,226	505,736
Exchange differences arising on translation of foreign operations directly recognised in equity	-	-	-	-	-	-	-	29,615	-	-	29,615	410	30,025
Profit for the period	-	-	-	-	-	-	-	-	-	60,266	60,266	475	60,741
Total recognised income and expense for the period	-	-	-	-	-	-	-	29,615	-	60,266	89,881	885	90,766
Acquisition of additional equity interest in a subsidiary	-	-	-	-	-	-	-	-	-	-	-	(1,863)	(1,863)
Exercise of share options	343	10,531	-	-	-	-	-	-	(2,284)	-	8,590	-	8,590
Recognition of equity-settled share based payments expenses	-	-	-	-	-	-	-	-	2,771	-	2,771	-	2,771
Repurchase and cancellation of shares	(50)	(289)	339	-	-	-	-	-	-	(2,620)	(2,620)	-	(2,620)
Transfer	-	-	-	-	-	219	-	-	-	(219)	-	-	-
Dividend paid	-	-	-	-	-	-	-	-	-	(62,838)	(62,838)	-	(62,838)
Balance at 30 June 2008(unaudited)	28,011	162,706	339	10,657	5,078	25,125	2,726	64,831	16,627	220,194	536,294	4,248	540,542

Note 1: The capital reserve of the Group represents the difference between the paid-in capital of the subsidiaries acquired pursuant to a group reorganisation and the nominal value of the Company's shares issued in exchange therefore.

Note 2: The other reserve of the Group represents the capitalisation of general reserve fund and enterprise expansion fund in Zhongxun Computer System (Beijing) Co., Ltd. ("SinoCom Beijing") as share capital of SinoCom Beijing in year 2003.

Note 3: In accordance with the law and regulations in the People's Republic of China (the "PRC") on foreign enterprises, PRC subsidiaries of the Company are required to set aside 10% of their net profits to the general reserve funds until the funds aggregate to 50% of their registered capital. In accordance with their articles of association, PRC subsidiaries of the Company may transfer such amount of profits (after taxation) as determined by their board of directors to the general reserve fund before distribution to their shareholders. The general reserve fund is non-distributable and can be used to increase the capital of the PRC subsidiaries. The general reserve fund can also be used to make good future losses.

Note 4: The shareholder's contribution of the Group represents waiver of amount due to a shareholder of the Company in 2001.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2008

	NOTE	Six months ended 30 June 2008 HK$'000 (unaudited)	2007 HK$'000 (unaudited)
Net cash from operating activities		**61,313**	58,307
Net cash used in investing activities:			
Purchase of plant and equipment		**(3,430)**	(5,341)
Acquisition of additional interests in subsidiaries	16	**(2,620)**	(3,240)
Acquisition of a subsidiary		**(709)**	–
Proceeds from disposal of plant and equipment		**46**	5
		(6,713)	(8,576)
Net cash used in financing activities:			
Dividend paid		**(62,838)**	(40,582)
Repurchase and cancellation of shares		**(2,620)**	–
Proceeds from issue of shares		**8,377**	3,994
Repayment of bank borrowings		**–**	(158)
Interest paid		**–**	(5)
Contribution from a minority shareholder		**–**	127
		(57,081)	(36,624)
Net (decrease)/increase in cash and cash equivalents		**(2,481)**	13,107
Cash and cash equivalents at beginning of the period		**444,607**	315,840
Effects of foreign exchange rate change		**26,916**	(6,392)
Cash and cash equivalents at end of the period, represented by bank balances and cash		**469,042**	322,555

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

1. Basis of preparation

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

2. Principal accounting policies

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2007. However, as detailed in note 9, a subsidiary was not consolidated for the six months ended 30 June 2007.

In the current interim period, the Group has applied, for the first time, the following new interpretations ("new interpretations") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 January 2008.

HK (IFRIC) - Int 11	HKFRS 2: Group and Treasury Share Transactions
HK (IFRIC) - Int 12	Service Concession Arrangements
HK (IFRIC) - Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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

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

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKAS 32 & 1 (Amendment)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC) - Int 13	Customer Loyalty Programmes[3]
HK(IFRIC) - Int 15	Agreements for the Construction of Real Estate[1]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[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 July 2008
[4] Effective for annual periods beginning on or after 1 October 2008

2. Principal accounting policies (continued)

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 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.

In addition, the Company repurchased ordinary shares during the six month ended 30 June 2008 as disclosed in note 13. The accounting policies for the repurchase of ordinary shares are summarised as below:

Equity Instruments

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. The amounts equal to the share capital and share premium are transferred to share redemption reserve. No gain or loss is recognised in income statement on the purchase, sale, issue or cancellation of the Company's own equity instruments.

To conform with current period presentation, exchange loss of HK$16,748,000 for the six months ended 30 June 2007 is reclassified from administrative expenses to other gains and losses.

3. Segment information

The Group is principally engaged in the provision of outsourcing software development services and technical support services. For the six months ended 30 June 2008, 95.6% (six months ended 30 June 2007: 94.7%) of 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 People's Republic of China ("PRC") and Japan. The Group's primary format for reporting segment information is geographical segment by location of customers.

3. Segment information (continued)

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

Six months ended 30 June 2008

	PRC HK$'000	Japan HK$'000	Consolidated HK$'000
Revenue	**36,738**	**290,267**	**327,005**
Segment results	**6,641**	**77,722**	**84,363**
Share of results of an associate	**38**	**–**	**38**
Discount on additional equity interest in a subsidiary	**–**	**323**	**323**
Unallocated other income			**4,346**
Unallocated corporate expenses			**(3,650)**
Profit before taxation			**85,420**
Taxation			**(24,679)**
Profit for the period			**60,741**

Six months ended 30 June 2007

	PRC HK$'000	Japan HK$'000	Consolidated HK$'000
Revenue	23,481	234,525	258,006
Segment results	5,361	55,085	60,446
Share of results of an associate	(112)	–	(112)
Discount on additional equity interest in a subsidiary	322	–	322
Unallocated other income			2,111
Unallocated corporate expenses			(5,278)
Interest expenses on bank borrowings within five years			(5)
Profit before taxation			57,484
Taxation			(8,976)
Profit for the period			48,508

Certain figures for the six months ended 30 June 2007 have been reclassified to conform with the current period segment presentation.

4. Profit before taxation

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

	Six months ended 30 June	
	2008	2007
	HK$'000	HK$'000
Depreciation of plant and equipment	**3,272**	2,469
Loss on disposal of plant and equipment	**44**	13
Operating lease rentals in respect of premises	**20,929**	15,494
Share based payments expense	**2,771**	4,773
Net foreign exchange (gain) loss	**(3,989)**	16,748
Interest income	**(3,755)**	(1,331)
Government subsidies	**(3,060)**	–

5. Taxation

	Six months ended 30 June	
	2008	2007
	HK$'000	HK$'000
PRC enterprise income tax	**21,065**	5,380
Japan income tax	**3,614**	3,596
	24,679	8,976

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New Law. Under the New Law and Implementation Regulation, most PRC subsidiaries of the Company will adopt an unified income tax rate of 25% from 1 January 2008.

Zhongxun Computer System (Beijing) Co., Ltd. ("SinoCom Beijing") is in the process of application for the recognition as a key software enterprise under the State plan with relevant PRC government authorities. Pursuant to the New Law, entities that qualify as key software enterprises under the State plan are expected to benefit from a tax rate of 10% as compared to the uniform tax rate of 25%. Until SinoCom Beijing receives official approval for this status, it uses the statutory 25% tax rate in the calculation of its tax balances.

Pursuant to the New Law, the Group will be liable to withholding tax on dividends distributed from the Company's foreign-invested subsidiaries in the PRC in respect of their profits generated from 1 January 2008. Deferred taxation has not been provided for in the condensed consolidated financial statements in respect of the temporary differences attributable to the undistributed retained profits earned by the subsidiaries for the six months ended 30 June 2008, as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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

6. Dividend

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 23 May 2008, a final dividend of HK5.60 cents per share (total dividend HK$62,838,000) in respect of the financial year ended 31 December 2007 was paid to the shareholders.

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

7. Earnings per share

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

	Six months ended 30 June	
	2008	2007
	HK$'000	HK$'000
Earnings		
Profit for the period attributable to equity holders of the Company	**60,266**	47,481

	Six months ended 30 June	
	2008	2007
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,112,128**	1,097,740
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	**11,590**	22,063
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,123,718**	1,119,803

8. Movements in plant and equipment

During the period, the Group disposed of certain plant and equipment with a carrying amount of HK$90,000 (six months ended 30 June 2007: HK$18,000) for proceeds of HK$46,000 (six months ended 30 June 2007: HK$5,000), resulting in a loss on disposal of HK$44,000 (six months ended 30 June 2007: HK$13,000). In addition, the Group spent HK$4,021,000 (six months ended 30 June 2007: HK$5,341,000) on additions to plant and equipment.

9. Investment in an unconsolidated subsidiary

In August 2006, the Group entered into a share transfer agreement with an independent third party to acquire a 75% equity interest in MIS Co., Limited ("MIS"), which is incorporated in Japan and principally engaged in the provision of software integration, integrated 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 in July 2007 for a cash consideration of JPY120,000,000 (equivalent to approximately HK$7,651,000).

10. Trade and other receivables

	30 June 2008 HK$'000	31 December 2007 HK$'000
Trade receivables	**87,585**	88,398
Other debtors	**14,573**	13,678
Other deposits	**4,916**	3,310
Prepayments	**2,182**	1,742
Total trade and other receivables	**109,256**	107,128

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

	30 June 2008 HK$'000	31 December 2007 HK$'000
0-30 days	**73,209**	80,257
31-60 days	**8,031**	6,723
61-90 days	**4,357**	397
91-180 days	**824**	1,021
Over 180 days	**1,164**	–
	87,585	88,398

11. Trade and other payables

	30 June 2008 HK$'000	31 December 2007 HK$'000
Trade payables	**2,732**	2,876
Wages and salaries payable	**38,809**	39,206
Accruals	**2,308**	3,874
Other tax payables	**9,322**	17,417
Payable for outstanding consideration for acquisition of additional equity interest in a subsidiary	**1,080**	2,160
Other payables	**1,984**	5,159
	56,235	70,692

Trade payables and accruals principally comprise amounts outgoing for sub-contracting and ongoing costs.

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

	30 June 2008 HK$'000	31 December 2007 HK$'000
0-30 days	**1,215**	1,432
31-60 days	**956**	1,365
61-90 days	**198**	33
91-180 days	**363**	26
Over 180 days	**–**	20
	2,732	2,876

12. Amounts due from/to related parties

	30 June 2008 HK$'000	31 December 2007 HK$'000
Amount due from an associate	**66**	161
Amount due from a shareholder	**721**	–
	787	161
Amount due to a shareholder	**–**	12

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

13. Share capital

	Number of shares '000	HK$'000
Authorised:		
Ordinary shares of HK$0.025 each, at 1 January 2007, 31 December 2007 and 30 June 2008	4,000,000	100,000
Issued and fully paid:		
At 1 January 2007	1,096,679	27,417
Exercise of share options *(Note i)*	12,040	301
At 31 December 2007	1,108,719	27,718
Exercise of share options *(Note ii)*	13,744	343
Repurchase and cancellation of shares *(Note iii)*	(2,012)	(50)
At 30 June 2008	1,120,451	28,011

Notes:

(i) 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.

(ii) During the six months ended 30 June 2008, share options to subscribe for 13,744,000 ordinary shares of HK$0.025 each were exercised at HK$0.625 per share.

(iii) During the six months ended 30 June 2008, the Company repurchased 2,012,000 ordinary shares through The Stock Exchange of Hong Kong Limited at an aggregated consideration of HK$2,620,000. The shares were subsequently cancelled.

14. Share-based payments

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 2 April 2004 for the primary purpose of providing incentives to eligible employees, and will expire on 1 April 2014. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees to subscribe for shares in the Company.

Details of specific category of options are as follows:

Date of grant	Vesting period	Original exercise price	Exercise price as adjusted after a share subdivision in May 2006
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 *(Note)*	15/01/2007-14/01/2011	HK$1.73	N/A
28/01/2008	28/01/2008-27/01/2013	HK$1.36	N/A

14. Share-based payments (Continued)

Details of movements of the share options, all of which were granted to the employees of the Group, during the six months ended 30 June 2008 are as follows:

Date of grant	Outstanding at 1/1/2008	Granted during period	Granted upon modification during the period (Note)	Cancelled upon modification during the period (Note)	Exercised during period	Forfeited during period	Outstanding at 30/6/2008
10/11/2004	23,484,000	-	-	-	(13,744,000)	(180,000)	9,560,000
24/01/2006	18,040,000	-	-	-	-	-	18,040,000
15/01/2007	16,030,000	-	15,750,000	(15,750,000)	-	(540,000)	15,490,000
28/01/2008	-	1,200,000	-	-	-	-	1,200,000
	57,554,000	1,200,000	15,750,000	(15,750,000)	(13,744,000)	(720,000)	44,290,000

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

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

The options granted on 28 January 2008 may be exercisable during the period from the first anniversary of the date of grant, being 28 January 2008 to 27 January 2018 (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) 20% of the options will be exercisable at any time on or after the first anniversary of the date of grant up to and including 27 January 2018;

(c) a further 20% of the options will be exercisable at any time on or after the second anniversary of the date of grant up to and including 27 January 2018;

(d) a further 20% of the options will be exercisable at any time on or after the third anniversary of the date of grant up to and including 27 January 2018;

(e) another 20% of the options will be exercisable at any time on or after the forth anniversary of the date of grant up to and including 27 January 2018; and

(f) the remaining 20% of the options will be exercisable at any time on or after the fifth anniversary of the date of grant up to and including 27 January 2018.

14. Share-based payments (Continued)

The closing price of the Company's shares immediately before 28 January 2008, the date of grant of options, was HK$1.34.

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised in the six months ended 30 June 2008 was HK$1.51.

The options granted on 28 January 2008 have a fair value of HK$0.46 per option which was determined at the date of grant using the Black-Scholes pricing model.

Details of the assumptions used to calculate fair value of share options are as follows:

Exercise price	HK$1.36
Expected life	6.50 years
Expected volatility	43%
Expected dividend yield	2.5%
Risk free rate	2.11%

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 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.

At each balance sheet date, the Company 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 the income statement, with a corresponding adjustment to the share options reserve.

Note:

On 28 January 2008, 15,750,000 share options ("old options"), which represent the then outstanding options previously granted on 15 January 2007 with an exercise price of HK$1.73 per share, were cancelled and the same number of share options ("new options") were granted to the option holders with an exercise price of HK$1.36 per share and other terms remained the same as those of the old options.

Details of the new options granted are as follows:

Date of grant	Number of share options	Vesting period	Option exercise price
28 January 2008	15,750,000	28/01/2008-27/01/2011	HK$1.36

14. Share-based payments (Continued)

The directors regarded the new options granted as replacement options for the old options. Accordingly, this has been accounted for as a modification of the old options and the Company has recognised the effects of modification that increase the total fair value of the share-based payment arrangement. Except that an expected life of 5.25 years is used, the assumptions noted above for the calculation of fair value of share options granted on 28 January 2008 are used to measure the fair value of the old and new options using the Black-Scholes pricing model. Fair values of the new and old options are HK$0.43 and HK$0.34 per option respectively which were determined at the date of modification. The incremental fair value is HK$1,203,000, of which, HK$537,000 was recognised for the six months ended 30 June 2008 and HK$666,000 will be expensed over the remaining vesting period.

15. Acquisition of a subsidiary

In January 2008, the Group entered into an agreement with China Way International Limited, a shareholder of the Company, to acquire the entire equity interest in SinoCom Holdings (Japan) Limited ("SinoCom Holdings Japan") for a cash consideration of JPY9,662,000 (equivalent to approximately HK$709,000). The acquisition has been accounted for as assets acquisition.

The net assets acquired in the transaction are as follows:

	HK$'000
Net assets acquired:	
Other receivable	739
Other payable	(30)
	709
Total consideration, satisfied by cash	709
Cash outflow arising on acquisition	
Cash consideration paid	(709)

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

16. Acquisition of additional interests in susidiaries

In February 2007, the Group entered into an agreement to acquire the remaining 45% further equity interest in an existing non-wholly owned subsidiary, SinoCom Shensoft Holdings (BVI) Limited, which is incorporated in British Virgin Islands and is the holding company of Shensoft Computer Technology (Shanghai) Company Limited and Shensoft Computer Technology Co., Limited, companies principally engaged in the provision of software development outsourcing 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 condensed consolidated income statement.

16. Acquisition of additional interests in susidiaries (Continued)

In March 2008, the Group entered into an agreement to acquire the remaining 9.75% 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 the subsidiary for a cash consideration of JPY19,784,000 (equivalent to approximately HK$1,540,000). In the opinion of directors, the carrying amounts of acquired net assets approximate to their fair value and the discount amounting to HK$323,000 was recognised in the condensed consolidated income statement.

17. Operating lease commitments

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

	30 June 2008 HK$'000	31 December 2007 HK$'000
Within one year	**41,450**	29,884
In the second to fifth year inclusive	**34,317**	28,660
	75,767	58,544

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.

18. Related party transactions and balances

During the six months ended 30 June 2008, the Group received revenue from outsourcing software development services of HK$95,000 (six months ended 30 June 2007: HK$84,000) and from technical support services of HK$595,000 (six months ended 30 June 2007: HK$349,000) from an associate. In January 2008, the Group acquired the entire equity interest in SinoCom Holdings Japan for a consideration of JPY9,662,000 (equivalent to approximate HK$709,000) from a shareholder, further details of which are set out in note 15. In addition, details of balances with related parties at the balance sheet date are set out in the consolidated balance sheet and note 12.

Compensation of key management personnel

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

	Six months ended 30 June	
	2008 HK$'000	2007 HK$'000
Salaries and other benefits	**8,934**	8,297
Retirement benefits scheme contributions	**498**	388
Share-based payments	**156**	385
	9,588	9,070

The remuneration of directors is determined by the salary review committee. The remuneration of the key executives is determined by the internal salary review committee having regard to the performance of individuals and market trends.