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: 299)

2007 FINAL RESULTS ANNOUNCEMENT

The directors (the "Directors") of SinoCom Software Group Limited (the "Company") are pleased to announce the consolidated financial results of the Company and its subsidiaries (the "Group") for year ended 31 December 2007 as follows:

CONSOLIDATED INCOME STATEMENT

	NOTES	**Year ended 2007** *HK$'000*	Year ended 2006 *HK$'000*
Revenue	*2&3*	**564,507**	377,433
Cost of services		**(340,999)**	(219,548)
Gross profit		**223,508**	157,885
Other income	*4*	**13,512**	4,703
Discount on acquisition of additional equity interest in a subsidiary		**322**	—
Loss on disposal of subsidiaries		**(504)**	—
Share of loss of an associate		**(75)**	(104)
Impairment loss on an investment		**(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	*5*	**(20,839)**	(11,668)
Profit for the year	*6*	**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			
— Basic		**10.48 cents**	6.73 cents
— Diluted		**10.30 cents**	6.54 cents

CONSOLIDATED BALANCE SHEET

	NOTES	2007 HK$'000	2006 HK$'000
Non-current assets			
Plant and equipment		**19,332**	15,338
Goodwill		**8,537**	7,956
Interests in an associate		**1,893**	1,968
Investment in an unconsolidated subsidiary		**—**	8,015
Other deposits		**6,069**	4,861
		35,831	38,138
Current assets			
Trade and other receivables	*9*	**107,128**	84,716
Amounts due from related parties		**161**	361
Amounts due from an unconsolidated subsidiary		**—**	121
Bank balances and cash		**444,607**	315,840
		551,896	401,038
Current liabilities			
Trade and other payables	*10*	**70,692**	39,054
Amounts due to a related party		**12**	12
Bank borrowings		**—**	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		**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		**—**	226
		505,736	393,252

Notes:

1. 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 on 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.

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.

2. REVENUE

	2007	2006
	HK$'000	*HK$'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

3. 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 service in two markets, the PRC and Japan. The Group's primary format for reporting segment information is geographical segment by location of customers.

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	**Japan**	**Consolidated**
	HK$'000	*HK$'000*	*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	Japan	Consolidated
	HK$'000	*HK$'000*	*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

	PRC	Japan	Corporate	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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	Japan	Consolidated
	HK$'000	*HK$'000*	*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	Japan	Consolidated
	HK$'000	*HK$'000*	*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

	PRC	Japan	Corporate	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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.

4. OTHER INCOME

	2007	2006
	HK$'000	*HK$'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).

5. TAXATION

	2007	2006
	HK$'000	*HK$'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% ("Favourable tax rate") pursuant to relevant PRC regulations as the annual export revenue of its software development business is more than 70% of SinoCom Beijing's total annual income.

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

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	2006
	HK$'000	*HK$'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.

6. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2007	2006
	HK$'000	*HK$'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

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:

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

Number of shares

	2007	2006
	'000	*'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.

8. 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 (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 HK$5.60 cents per share. This dividend is subject to approval by shareholders at the Annual General Meeting

9. TRADE AND OTHER RECEIVABLES

	2007	2006
	HK$'000	*HK$'000*
Trade receivables	**88,398**	64,545
Other debtors	**13,678**	7,730
Deposit previously made for acquisition of an investment	**—**	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	2006
	HK$'000	*HK$'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).

Ageing of trade receivables which are past due but not impaired

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

10. TRADE AND OTHER PAYABLES

	2007	2006
	HK$'000	*HK$'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	**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	2006
	HK$'000	*HK$'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

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

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

EXTRACT FROM THE INDEPENDENT AUDITORS' REPORT

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 a note 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 financial statements. It is not practicable to quantify the effects of the departure from these requirements.

The above departures from HKAS7, 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.

BUSINESS REVIEW

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 5.60 HK cents per share for the year ended 31 December 2007.

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. SinoCom was one of the biggest five of its kind and the leader for the Japanese market. 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.

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.

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 159 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.

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.

FINAL DIVIDEND

The Directors recommend a final dividend of HK5.60 cents per share for 2007 payable to shareholders whose names appear on the register of members of the Company on 20 May 2008. Subject to shareholders' approval of the payment of the final dividend at the forthcoming annual general meeting of the Company, the proposed final dividend is expected to be paid on or about 6 June 2008.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 21 May 2008 to 23 May 2008, both dates inclusive during which period no share transfer will be effected. To qualify the proposed final dividend, all transfer documents together with relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30pm on 20 May 2008.

MODEL CODE FOR SECURITIES TRANSACTIONS

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.

CORPORATE GOVERNANCE

During the year ended 31 December 2007, the Company complied with 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 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's audit committee held a meeting in April 2008 to review the Group's audited results for the year ended 31 December 2007. Deloitte Touche Tohmatsu ("Deloitte"), the Group's external auditors have conducted an audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants.

The figures in this preliminary announcement have been agreed by Deloitte to the amounts set out in the Group's consolidated financial statements for the year ended 31 December 2007. The work performed by Deloitte in this respect was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by Deloitte for this announcement.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on Friday, 23 May 2008. For details of the Annual General Meeting, please refer to the Notice of Annual General Meeting which is expected to be published on or about 30 April 2008.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

By order of the board
WANG Zhiqiang
Chairman and CEO

Hong Kong, 24 April 2008

As at the date of this announcement, the executive Directors are Mr. Wang Zhiqiang, Mr. Wang Xubing, Dr. Shi Chongming, Mr. Siu Kwok Leung; the non-executive Director is Mr. Wang Nengguang; and the independent non-executive Directors are Mr. Pang Chor Fu, Professor Li Weian and Mr. Lee Kit Wah.