



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)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2008

The directors (the “Directors”) of SinoCom Software Group Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2008 (the “Period”), which has been reviewed by auditors of the Group, Deloitte Touche Tohmatsu, and the audit committee of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2008

		Six months ended 30 June	
		2008	2007
	NOTES	HK\$'000	HK\$'000
		(unaudited)	(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		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

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

Notes:

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, 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

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. The accounting policies for the repurchase of ordinary shares are summarised as below:

Equity Instruments

Repurchase of the Company's own equity instruments is recognized 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 recognized 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.

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	Japan	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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	Japan	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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)	—
	<u> </u>	<u> </u>

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
	<u> </u>	<u> </u>
	<u>24,679</u>	<u>8,976</u>

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 Group’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, 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
	1,112,128	1,097,740
	11,590	22,063
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

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.

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, 2007 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.

By order of the board
WANG Zhiqiang
Chairman

Hong Kong, 18 September 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 Liang Neng and Mr. Lee Kit Wah.