



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

Annual Report 2008

Congregating wisdom
for innovation

Accumulating potential
for development

Congregating wisdom
for innovation

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Accumulating potential
for development

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for development



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Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Director

Mr. Wang Nengguang

Independent Non-executive Directors

Mr. Pang Chor Fu
Professor Liang Neng
Mr. Lee Kit Wah

COMPANY SECRETARY

Mr. Siu Kwok Leung *FCCA, AHKICPA*

QUALIFIED ACCOUNTANT

Mr. Siu Kwok Leung *FCCA, AHKICPA*

AUTHORISED REPRESENTATIVES

Mr. Wang Zhiqiang
Mr. Siu Kwok Leung

AUDIT COMMITTEE

Mr. Pang Chor Fu
Professor Liang Neng
Mr. Lee Kit Wah

SALARY REVIEW COMMITTEE

Mr. Wang Zhiqiang
Mr. Wang Nengguang
Mr. Pang Chor Fu
Professor Liang Neng
Mr. Lee Kit Wah

REGISTERED OFFICE

Cricket Square Hutchins Drive P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

9th Floor, Tengda Building
No. 168 Xizhimenwai Street
Haidian District
Beijing
China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Units 1713–18, 17/F Shui On Centre
6–8 Harbour Road
Wanchai
Hong Kong

WEBSITE

www.sinocom.cn

PRINCIPAL BANKER

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Ltd.
Butterfield House
68 Fort Street
P.O. Box 705
George Town Grand Cayman Cayman Island

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

Financial Summary

RESULTS

| | Year ended 31 December | | | | |
|---|------------------------|------------------|------------------|------------------|------------------|
| | 2008 HK\$'000 | 2007 HK\$'000 | 2006 HK\$'000 | 2005 HK\$'000 | 2004 HK\$'000 |
| TURNOVER | 657,831 | 564,507 | 377,433 | 250,657 | 178,309 |
| PROFIT BEFORE TAXATION | 166,891 | 138,491 | 86,105 | 69,617 | 58,829 |
| TAXATION | (35,671) | (20,839) | (11,668) | (9,036) | (6,524) |
| PROFIT FOR THE YEAR | 131,220 | 117,652 | 74,437 | 60,581 | 52,305 |
| PROFIT ATTRIBUTABLE TO: EQUITY HOLDERS OF THE COMPANY | 130,585 | 115,474 | 73,308 | 60,012 | 52,256 |
| MINORITY INTERESTS | 635 | 2,178 | 1,129 | 569 | 49 |
| | 131,220 | 117,652 | 74,437 | 60,581 | 52,305 |
| EARNINGS PER SHARE | | | | | |
| Basic (cents) | 11.73 | 10.48 | 6.73 | 5.59 | 5.35 |
| Diluted (cents) | 11.66 | 10.30 | 6.54 | 5.46 | 5.35 |

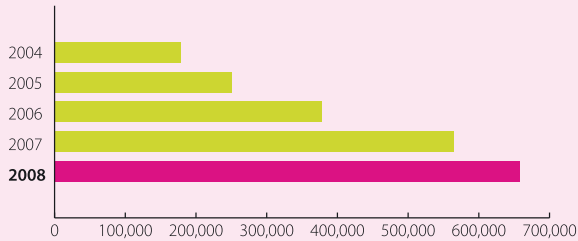
ASSETS AND LIABILITIES

| | As at 31 December | | | | |
|--|-------------------|------------------|------------------|------------------|------------------|
| | 2008 HK\$'000 | 2007 HK\$'000 | 2006 HK\$'000 | 2005 HK\$'000 | 2004 HK\$'000 |
| TOTAL ASSETS | 721,040 | 587,727 | 439,176 | 352,978 | 291,656 |
| TOTAL LIABILITIES | (117,813) | (81,991) | (46,150) | (33,680) | (30,181) |
| | 603,227 | 505,736 | 393,026 | 319,298 | 261,475 |
| ATTRIBUTABLE TO: EQUITY HOLDERS OF THE COMPANY | 599,975 | 500,510 | 384,334 | 312,178 | 260,948 |
| MINORITY INTERESTS | 3,252 | 5,226 | 8,692 | 7,120 | 527 |
| | 603,227 | 505,736 | 393,026 | 319,298 | 261,475 |

Financial Highlights

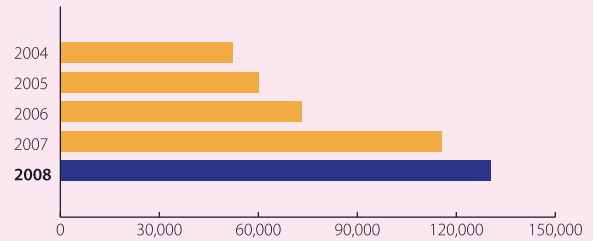
TURNOVER

(HK\$'000)



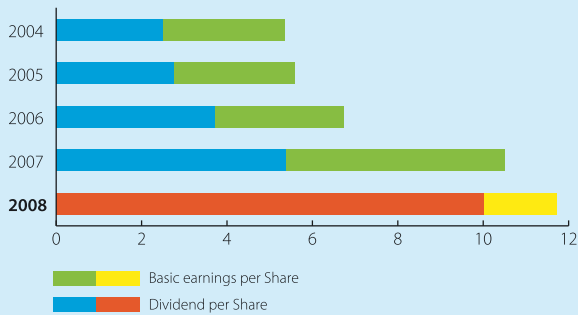
PROFIT ATTRIBUTABLE TO SHAREHOLDERS

(HK\$'000)

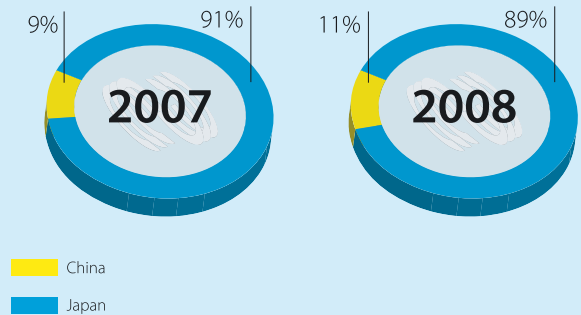


BASIC EARNINGS PER SHARE & DIVIDEND PER SHARE

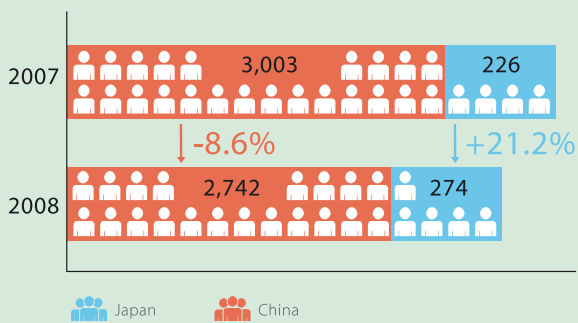
(HK cents)



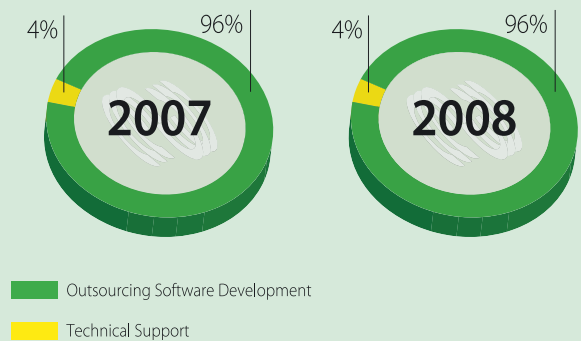
REVENUES BY COUNTRY



HEADCOUNTS



SCOPE OF SERVICES



Chairman's Statement

“ The Group has performed well in the past few years whenever it was upwind or downwind. We, HOWEVER, WILL NOT GET COMPLACENT AND NEGLECT THE CHALLENGES.”



Mr. Wang Xubing
President

Mr. Wang Zhiqiang
Chairman

BUSINESS REVIEW

2008 was a year full of risks and uncertainties to the World economy. The US sub-prime mortgage crisis transformed itself to a full blown economic tsunami around the World. Economic activities in the second half of the year were encumbered by the fall of world's stock markets as well as commodity prices. The industries in China were inevitably affected to a certain extent, which makes business environment in a more difficult situation.

Nevertheless, the Group's result for year ended 31 December 2008 (the "Year") reviewed was not hindered by the adverse environment. The turnover and net profit increased by 16.5% and 11.5% respectively. With efforts made by all of our staff, the Group's business hits record high since its listing on the Hong Kong Stock Exchange, which is very encouraging to our shareholders.

The Group's business grew at a faster pace in the first half of the Year. Japan economy started to be affected by the financial tsunami in the second half of the Year. Fortunately, revenue from the Group's major clients in Japan still kept on growing under such a tough time, which was rare and commendable. The Group has made prudent adjustment in business resources according to market changes so as to minimize tsunami impact. The Group was therefore able to maintain at a moderate growth in turnover and the net profit for the Year.

OUTLOOK PROSPECTS

It is expected that the 2009 global economic environment would be even tougher and the operating environment would be more challenging. Under such deteriorating climate, adjustment of business strategies will be made to keep the pace of growth. The Group will continue development in the Japanese market; focus resources on business with better edge among Japanese clients and open up business with non-financial institutions so as to solidify the portfolio in Japan. The implementation of stringent risk management, making us zero bad debt in the past years, which become more important in the midst of global economic slack.

As the China Government strives to maintain "steady and relatively fast" economic growth, beneficial policies are launched to assist outsourcing software companies. The economic condition is estimated to be better than other countries with help of the expanding domestic demand. Therefore, the Group plans to expand business in China through collaboration to jointly explore the China market with interested parties of varies aspects in the new financial year. The Group strives to make it as a new growing force.



Chairman's Statement

India has been a keen competitor of China in the European and US markets for outsourcing software industry. The financial tsunami impact on the outsourcing software industry in India is more serious than in China. The terrorist attacks last year and the fraud accounting scandal in India have induced clients in the European and US to outsource their IT business to China in order to diversify the risk. Hence, it is believed that Chinese outsourcing software development companies have a great chance to grasp a piece of market share in Europe and US. Despite economy recession and tumbling of financial institutions, there are still enormous potentials for both markets in the long run and it is a golden opportunity for development.



Mergers and acquisitions (“M&A”) has been one of the strategies to strengthen the Group. In the past, due to the thriving expansion of the outsourcing software markets, the costs and potential risks of M&A were high. Hence, the Group’s expansion pace through M&A was inactive. We now believe it is time to accelerate the business expansion through M&A while economy restructuring is in progress.

The financial tsunami clearly releases the tension of workforce and the global unemployment rate is climbing up. The manpower in China is abundant but it is mostly confined to non-skilled labour market. The demand for educated and skilled talents is still intense. Be that as it may, the pressure on wage increase is expected to be alleviated. By not affecting professional quality service, the Group will adjust personnel structure to alleviate the pressure on cost increase and receive more middle-to-upper stream business orders.

CONGREGATING WISDOM FOR INNOVATION, ACCUMULATING POTENTIAL FOR DEVELOPMENT

The Group has performed well in the past few years whenever it was upwind or downwind. We, however, will not get complacent and neglect the challenges. The global business environment is not yet out of wood in the coming year. We must be as cautious as standing on ice to develop our business and congregate the more software experts. The Group aims at creating a magnificent page in the outsourcing software development industry. “Congregating wisdom for innovation, accumulating potential for development”, we will follow our corporate mission for continuous development.

Finally but not the least, I would like to thank all our staff for their commitment and hard work throughout last year. Also, I would like to extend my heartfelt appreciation to our shareholders and business partners for their trust and support. And rest assured that the Board will strive for an optimum return to our shareholders in the challenging future.

By Order of the Board

Wang Zhiqiang

Chairman

Hong Kong, 31 March 2009

Management Discussion and Analysis

REVIEW OF RESULTS AND OPERATIONS

The Group's consolidated turnover for the Year was approximately HK\$657,831,000, representing an increase of approximately 16.5% when compared to 2007. Outsourcing software development work from the Group's existing Japanese customers continued to grow in 2008 on real term Japanese Yen ("JPY") to JPY basis. Turnover derived from outsourcing software development work increased by approximately 15.7% to approximately HK\$628,736,000. Among which HK\$373,660,000, or, 56.8% was contributed from Zhongxun Computer System (Beijing) Co. Ltd ("Sinocom Beijing"), headquarters of the Group, and HK\$114,065,000, or 17.3% was from Zhongxun Software Inc., Japan ("Sinocom Japan"), operation arm of the Group in Japan. Sinocom Beijing and Sinocom Japan increased their turnover by approximately 19.7% from 2007. The increase was mainly attributable to the growth in business volume from its two largest customers to whom the aggregated turnover accounted to approximately 66.4% (2007: 65.3 %). Top five customers accounted for approximately 78.0% of the total turnover. Provision of technical support services turnover increased by approximately 37.2% to approximately HK\$29,095,000. Growth momentum for technical support services remained strong during the year from multinational companies in the PRC.

There were 3,016 full time staff headcounts as at 31 December 2008, a reduction of 213 or 6.6% from 3,229 at beginning of the year. Reduce in headcounts in the second half year represented the Group's resources restructuring to adjust its human resources matrix accommodating changes in its business trend both in terms of volume and skills set requirement and to improve the Group's employees utilization rate. Actually, the average headcount for the Year was 3,201 (2007: 2,852), which was in line with its business volume growth.

Gross profit for the Year decreased to approximately HK\$201,830,000, or 7.1% decrease, when compared to the gross profit of HK\$217,342,000 in 2007. The Group's gross profit margin was approximately 30.7% in 2008 (2007: 38.5%). Strong Renminbi ("RMB") exchange rates accounted partially for this margin drop as a result of increase in costs in terms of HK dollars. Employee related cost increased by approximately 44.1% while the average manufacturing headcounts increased by approximately 14.1%. The average per head employee related cost increased by approximately 15.2% after discounting the RMB appreciation impact. This increment on a per head basis was contributable as to approximately 9.2% of salary increment and as to approximately 5.6% of revised up social security insurance provision. Employee utilization rate dropped in the second half year when business growing at a slower rate also accounted for the drop in gross profit margin.

Operating profit and net profit attributable to shareholders in 2008 increased by approximately 20.5% and 13.1% to HK\$166,891,000 and HK\$130,585,000 respectively. Operating margin and net profit margin in 2008 were approximately 25.4% and 19.9% respectively and the effective tax rate was approximately 21.4%. Increase in effective tax rate was mainly due to deferred withholding tax provision for dividends distributable outside of the PRC when the relevant tax laws became effective on 1 January 2008.

LIQUIDITY AND FINANCIAL RESOURCES

Since inception, the Group has funded its operations through equity funding and operating cash flows 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 flows. There were no bank borrowings at end of the Year.

SHARE CAPITAL

The Company purchased 9,552,000 shares of its listed ordinary shares from the open market during the Year. The purchased shares were cancelled and hence reduced the share capital of the Company.

As at 31 December, 2008, the number of shares in respect of which options had been granted and remained outstanding under the share option scheme of the Company was 43,750,000, representing approximately 3.9% of the shares of the Company in issue at that date.

Management Discussion and Analysis

PLEDGE OF ASSETS

As at 31 December, 2008, the Group had not pledged any of its assets.

EMPLOYEES AND REMUNERATION POLICY

The Group had 3,016 full time staff as at 31 December, 2008 (2007: 3,229). Most of them are engineers located in China. There were 274 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 a 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. Staff 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 JPY while expenses were settled in RMB, any depreciation of JPY against RMB, will reduce the income of the Group measured in RMB 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 consideration of the monthly recurring nature of JPY revenue from the management's point of view. The group strategy was to changing JPY 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, 2008, the Group had no material contingent liabilities.

CAPITAL COMMITMENTS

As at 31 December, 2008, the Group had no material capital commitments.

EXECUTIVE DIRECTORS

Mr. Wang Zhiqiang

Mr. Wang Zhiqiang (王志強), aged 45, is the chairman of the Board and the chief executive officer of the Group. He has been a member of the senior management since the establishment of Zhongxun Computer System (Beijing) Co., Ltd. (中訊計算機系統(北京)有限公司) ("SinoCom Beijing") in August 1995. Mr. Wang is responsible for the formulation of corporate strategies, and oversees financial and human resources management of the Group. He has over ten years' experience in the information technology industry. He graduated from the Northern Jiaotong University (北方交通大學) in 1984 and obtained a bachelor's degree in computer studies. Before founding the Group in 1995, he worked in Beijing Oracle Software Systems Co., Ltd. from 1990 to 1994 during which period he was engaged as sales representative, senior sales representative and business manager and was responsible for the sales and marketing of its products.

Mr. Wang Xubing

Mr. Wang Xubing (王緒兵), aged 46, is the president and a founder of the Group. Mr. Wang is responsible for the management and business development of the Group. He has over ten years' experience in software development and corporate management. Mr. Wang graduated from Northern Jiaotong University in 1987 with a master's degree in computer studies. Before founding the Group in August 1995, Mr. Wang worked in Japan from 1988 to 1994. During that period, Mr. Wang gained experience in software development and technical management during his employment with テー・エス・デー株式会社 (TSD) and 日中コミュニケーションズ株式会社 (JCC). After returning to the PRC from Japan, Mr. Wang established SinoCom Beijing in 1995 at which time P.R.O. Co., Ltd. held an approximately 77% equity interest in SinoCom Beijing as nominee on his behalf.

Dr. Shi Chongming

Dr. Shi Chongming (時崇明), aged 54, is an executive Director and the managing director of Zhongxun Software Inc. (日本中訊株式會社). Dr. Shi graduated from Shenyang Institute of Technology (瀋陽機電學院) in 1982 with a bachelor's degree in electronic engineering. He then obtained a master's degree in engineering from Northeast China Heavy Machinery Institute (東北重型機械學院) in 1984. He then continued his studies in Japan and obtained a doctorate in engineering from Hokkaido University in 1988. In 1991, Dr. Shi worked as the chief engineer in Think Co., Ltd., a software company in Japan. From June 1994 to June 1999, Dr. Shi worked for Sysnauts Co, Ltd as its senior managing director. He joined the Group in July 1999.

Mr. Siu Kwok Leung

Mr. Siu Kwok Leung (邵國樑), aged 46, is an executive Director as well as the chief financial officer and the company secretary of the Company. He is responsible for budget preparation, cost control, investment and financing, and merger and acquisition activities of the Group. He is also responsible for the management of the finance department of the Group. He is a member of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. Mr. Siu graduated from Hong Kong Polytechnic University with a professional diploma in accountancy in 1986. He then obtained a master's degree in finance from the Chinese University of Hong Kong in 1999, and a master's degree in ecommerce from the University of Hong Kong in 2001. Mr. Siu was a senior accounting officer of KPMG in Hong Kong from 1986 to 1988; a financial accountant of the Dairy Farm Group from 1988 to 1990; and a finance and administration manager of Oracle Systems Hong Kong Limited from 1990 to 1991. He was then appointed as the financial controller and subsequently an executive director of Star Entertainment (International Holding) Limited from 1991 to 1996; the financial controller of Kessel Electronics (HK) Ltd. from 1997 to 2000; and the finance and operations directors of Emphasis Media Limited of the Time Warner Group in Hong Kong from 2000 to 2001. Mr. Siu joined the Group in 2002.

Directors' Profile

NON-EXECUTIVE DIRECTOR

Mr. Wang Nengguang

Mr. Wang Nengguang (王能光), aged 51, is the vice president and the chief financial officer of Legend Capital Limited, which engages in venture capital investments. Mr. Wang holds a master's degree (研究生) in economics management from the Chinese Communist Central Academy (中共中央黨校). Since 1994, Mr. Wang has been appointed as general manager of the finance department of the Lenovo Group Limited, a company the shares of which are listed on the Main Board of the Stock Exchange. He was appointed as a Director in February 2003. He was appointed as a non-executive director of China Sunshine Paper Holdings Company Limited, a company listed on the Main Board of the Stock Exchange, in November 2007.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Pang Chor Fu

Mr. Pang Chor Fu (彭楚夫), aged 41, earned his Bachelor of Science from Boston University in 1990 and later obtained his Master in IT Education from University of Wollongong. Mr. Pang was a System Engineer of Toshiba group in Japan and founded various education and IT enterprises in Hong Kong since his return from Japan in 1993. Mr. Pang currently serves as a president of DW Education Group that focuses on IT and education business. He is an active member of several business communities in Hong Kong. Besides being a director of The Chinese General Chamber of Commerce (香港中華總商會) and vice-chairman of its Youth Committee, he is also a director of The Hong Kong Chinese Importers' & Exporters' Association (香港中華出入口商會), the vice-chairman of the Oriental Lions Club (香江獅子會) and the vice-chairman of Hong Kong & Mainland Software Industry Cooperation Association (香港軟件行業協會). Mr. Pang was appointed as a Director in February 2004.

Mr. Lee Kit Wah

Mr. Lee Kit Wah (李傑華), aged 54, graduated from University of Toronto in 1979 with a bachelor's degree in Commerce. He is a fellow of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants, the Taxation Institute of Hong Kong and a member of the Institute of Chartered Accountants in England and Wales. Mr. Lee was trained at Price Waterhouse (presently PricewaterhouseCoopers) in Hong Kong from 1979 to 1984, and worked at F. S. Li & Co., Certified Public Accountants between 1985 to 1988 first as an audit supervisor and then as an audit manager. He has been practising as a certified public accountant in Hong Kong since 1988 and is the managing director of an accounting firm, Katon CPA Limited. He was appointed as a Director in March 2004. Mr. Lee is also an independent non-executive director of ITC Corporation Limited ("ITC") and was also an independent non-executive director of Overseas Chinese Town (Asia) Holdings Limited (formerly known as Huali Holdings (Group) Limited) during the period from September 2005 to April 2007, both listed on the Stock Exchange.

Professor Liang Neng

Professor Liang (梁能), aged 57, was appointed as the independent non-executive Director in 2008. He is the Professor of Management, Associate Dean and Director of the Executive MBA Program at the China Europe International Business School ("CEIBS"). He is also a standing committee member of Shanghai Pudong Chinese People's Political Consultative Conference. Previously he was a tenured Professor of Management at Loyola College of Maryland, USA, and a professor of management at the China Centre for Economic Research of Beijing University. Professor Liang received his Ph.D. from Indiana University (Bloomington), an MBA from The Wharton School, and was a Fulbright Scholar at Stanford University in 1984. He received CEIBS Teaching Excellence Award in 2007.

Professor Liang served as a consultant to multinational firms such as General Electric Company, Johnson & Johnson and PepsiCo Inc., as a vice president of the Chinese Economists Society ("CES"), and as the Chairman of the Baltimore-Xiamen Sister City Committee of the Municipal Government of Baltimore, USA. From 1998 to 2001, he served as the first Chinese director of the Beijing International MBA program at Beijing University. Since January 2009, Professor Liang has been appointed as an independent non-executive director of HSBC Bank (China) Company Limited.

The directors have pleasure in presenting their annual report and the audited consolidated financial statements for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 26.

The directors now recommend the payment of a final dividend and of a special dividend of HK6.0 cents and of HK4.0 cents per share to the shareholders on the register of members after close of business on 14 May 2009, amounting approximately to HK\$111,305,000 on the basis that no further shares are issued or repurchased prior to that date.

SUMMARY OF FINANCIAL INFORMATION

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

PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of movements during the year in the share capital of the Company is set out in note 24 to the consolidated financial statements.

During the year, the Company repurchased 9,552,000 shares of the Company's listed ordinary shares through the Stock Exchange of Hong Kong Limited, details of which are set out in note 24 to the consolidated financial statements. The Directors believed that such repurchase led to an enhancement of the earning per share of the Company and was in the best interests of the Company and its shareholders.

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2008, the Company's reserves available for distribution to shareholders was approximately HK\$128,864,000, comprising of the contributed surplus of approximately HK\$29,412,000 and the retained profit of approximately HK\$99,452,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for 78.0% of the total sales for the year and sales to the largest customer included therein amounted to 35.1%. Purchases from the Group's five largest suppliers accounted for 50.8% of the total purchases for the year and purchases from the largest supplier included therein amounted to 21.9%.

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

Report of the Directors

DIRECTORS

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

Executive directors

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

Non-executive director

Mr. Wang Nengguang

Independent non-executive directors

Mr. Pang Chor Fu
Prof. Liang Neng (appointed on 23 May 2008)
Mr. Lee Kit Wah
Prof. Li Weian (retired on 23 May 2008)

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

DIRECTORS' SERVICE CONTRACTS

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

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance to which the Company, its holding Company, fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at 31 December 2008 or at any time during the year.

Report of the Directors

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

As at 31 December 2008, the interests and short positions of the directors and the chief executives and their associates in the shares, underlying shares and convertible bonds of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO") as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

(a) Interests in the Company

| Name of directors | Capacity/Nature of interest | No. of shares of the Company | Notes | Approximate percentage of shareholding |
|--------------------|--------------------------------------|------------------------------|-------|--|
| Mr. Wang Xubing | Interest of a controlled corporation | 563,000,000 (L) | 1 | 50.58% |
| Mr. Wang Zhiqiang | Interest of a controlled corporation | 563,000,000 (L) | 2 | 50.58% |
| Dr. Shi Chongming | Beneficial owner | 4,043,200 (L) | | 0.36% |
| Mr. Siu Kwok Leung | Beneficial owner | 4,280,000 (L) | | 0.38% |

Notes:

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

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

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

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

Report of the Directors

Save as disclosed above, as at 31 December 2008, there was no other Director or chief executive of the Company who had any interest or short position in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) which were recorded in the register maintained by the Company under section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

As at 31 December 2008, no option was granted to Directors to acquire shares in the Company. At no time during the year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement that enabled any Directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2008, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows that (other than the interests disclosed above in respect of certain directors and chief executives), the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company.

| Name of shareholder | Capacity/Nature of interest | No. of shares of the Company | Notes | Approximate percentage of shareholding |
|---------------------|--------------------------------------|------------------------------|-------|--|
| China Way Int'l Ltd | Beneficial owner | 563,000,000 (L) | | 50.58% |
| Mr. Wang Xubing | Interest of a controlled corporation | 563,000,000 (L) | | 50.58% |
| Mr. Wang Zhiqiang | Interest of a controlled corporation | 563,000,000 (L) | | 50.58% |
| Madam Zhang Yue | Interest of spouse | 563,000,000 (L) | 1 | 50.58% |
| Madam Yuan Yue Ling | Interest of spouse | 563,000,000 (L) | 2 | 50.58% |
| FMR LLC | Beneficial owner | 56,750,000 (L) | | 5.10% |

Notes:

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

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2008.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

During the year, the Company purchased 9,552,000 shares of the Company's listed ordinary shares from the open market that had been cancelled hence resulted in a reduction in the share capital.

SHARE OPTION SCHEME

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

At 31 December 2008, the number of shares in respect of which options had been granted and remained outstanding under the scheme was 43,750,000 (2007: 57,554,000), representing 3.93% (2007: 5.19%) of the shares of the Company in issue at that date. 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.

Thus, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

In the current year, an amount of share option expense of HK\$4,645,000 has been recognised, with a corresponding adjustment recognised in the Group's share option reserve.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

EMOLUMENT POLICY

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

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

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

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2008.

Report of the Directors

CORPORATE GOVERNANCE

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

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

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

AUDITOR

Deloitte Touche Tohmatsu has acted as auditor of the Company for the past six years.

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

On behalf of the Board

Wang Zhiqiang

Chairman

Hong Kong, 31 March 2009

Corporate Governance Report

COMMITMENT TO CORPORATE GOVERNANCE

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

BOARD OF DIRECTORS

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

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

The principal functions of the Board are to make decision on the objectives, strategic plans, budgets and management structure of the Company; to oversee the management of the business and affairs of the Group; to supervise the management of the business and affairs with the objective of enhancing the Company and shareholders' value with the proper delegation of the power to the management for its day-to-day operation of the Company, implementation of the budgets and strategic plans and development of the organization of the Company for implementing the Board's decision. During the year under review, the Board has reviewed, inter alia, the performance and formulated business strategy of the Group; reviewed and approved the annual and interim results of the Group for the year ended 31 December, 2007 and 30 June, 2008 respectively; approved acquisitions and disposals of equity interest in subsidiaries of the Group; reviewed and approved the grant of share option; amendment to option scheme; reviewed internal controls taken by the Group; and other significant operational and financial matters.

The Board conducts meeting on a regular basis and on an ad hoc basis, as required by business needs. The Board held totally more than four Board Meetings during the year under review. Board meetings for the purpose of granting stock options or allotment of shares to exercised options in accordance to the terms set out in the Company's approved option scheme are delegated to meetings among Executive directors. Board Meetings served for this purpose have not been counted to the director's attendance statistics. In the said Board Meetings, sufficient notices for regular board meetings and reasonable days for non-regular board meetings were given to all directors so as to ensure that each of them had an opportunity to attend the meetings, and agendas and accompanying board papers were given to all Directors in a timely manner. If necessary, Directors also have recourse to external professional advice at the Group's expense. During the intervals between Board meetings, Directors are kept apprised of all major changes that may affect the Group's business. The draft minutes of Board meetings are prepared by the secretary of the meetings and circulated to all Directors for comments within a reasonable time. The approved minutes of the Board meetings are maintained by the Company Secretary and available for inspection by all Directors at request.

Corporate Governance Report

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

| Executive directors | Directors' attendance* |
|---|-------------------------------|
| Mr Wang Zhiqiang (Chairman & CEO) | 4/4 |
| Mr Wang Xubing (President) | 4/4 |
| Dr Shi Chongming | 4/4 |
| Mr Siu Kwok Leung | 4/4 |
| Non-executive director | |
| Wang Nengguang | 4/4 |
| Independent non-executive directors | |
| Mr Lee Kit Wah | 4/4 |
| Professor Liang Neng (appointed on 23 May 2008) | 2/2 |
| Mr Pang Chor Fu | 4/4 |
| Professor Li Weian (retired on 23 May 2008) | 2/2 |

* Board meetings for the purpose of granting stock options or allotment of shares to exercised options in accordance to the terms set out in the Company's approved option scheme are delegated to meetings among Executive directors. Board Meetings served for this purpose have not been counted to the director's attendance statistics. There were 6 such meetings in which all Executive directors attended.

NON-EXECUTIVE DIRECTORS

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

NOMINATION OF DIRECTORS

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

Corporate Governance Report

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

DIRECTORS' SECURITIES TRANSACTIONS

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

ACCOUNTABILITY AND AUDIT

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

The financial statements of the Company for the year ended 31 December 2008 have been reviewed by the Audit Committee and audited by the external auditor, Messrs. Deloitte Touche Tohmatsu. For the year ended 31 December 2008, the audit fee was approximately HK\$3,029,000 and the non-audit service fee was HK\$12,000 (for tax filing). The responsibilities of the external auditor with respect to financial reporting are set out in the section of "Report of the Auditor".

SALARY REVIEW COMMITTEE

The Salary Review Committee comprising five members with a majority of INEDS, namely Mr Pang Chor Fu, Professor Liang Neng (appointed on 23 May 2008), and Mr Lee Kit Wah, Mr Wang Zhiqiang and Mr Wang Nengguang and is chaired by Mr Pang Chor Fu, which meets at least once a year. Professor Li Weian used to be a member who retired on 23 May 2008.

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

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

Corporate Governance Report

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

| | Directors' Attendance |
|---|------------------------------|
| Mr Wang Zhiqiang (Chairman & CEO) | 1/1 |
| Mr Wang Nengguang | 1/1 |
| Mr Lee Kit Wah | 1/1 |
| Professor Li Weian (retired on 23 May 2008) | 1/1 |
| Mr Pang Chor Fu | 1/1 |
| Professor Liang Neng (appointed on 23 May 2008) | N/A |

AUDIT COMMITTEE

The audit committee has three members comprising, namely Mr. Lee Kit Wah, Mr. Pang Chor Fu, and Professor Liang Neng. All of them are independent Non-Executive Directors and none of them are members of the former or existing auditors of the Company. Professor Li Weian used to be a member who retired on 23 May 2008. The audit committee held two meetings during the year which were chaired by Mr Lee Kit Wah who is a qualified accountant. The Board considers the audit committee has extensive commercial experience in business, financial and legal matters. The primary duties of the Audit Committee include, inter alia, to review and monitor financial reporting and the judgements contained therein; and to review financial and internal controls, accounting policies and practices with management and external auditors.

The Audit Committee has reviewed and discussed with the management the accounting principles and practice adopted by the Group and auditing, internal controls and financial reporting matters. The audited financial statements of the Group for the financial year ended 31 December 2008 have been reviewed by the Audit Committee.

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

| | Directors' Attendance |
|---|------------------------------|
| Mr Lee Kit Wah | 2/2 |
| Professor Liang Neng (appointed on 23 May 2008) | 1/1 |
| Mr Pang Chor Fu | 2/2 |
| Professor Li Weian (retired on 23 May 2008) | 1/1 |

INTERNAL CONTROL

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group. The Board has delegated to the management the implementation of such systems of internal controls as well as the review of relevant financial, operational and compliance controls and risk management procedures. The management of the Group has reviewed the Group's internal control and risk management system for the year ended 31 December 2008 and had submitted the results of the review and its recommendations and opinions for consideration by the audit committee and the board.

Corporate Governance Report

INVESTOR RELATIONS

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

COMMUNICATION WITH SHAREHOLDERS

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

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

Independent Auditor's Report



TO THE SHAREHOLDERS OF SINOCOM SOFTWARE GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of SinoCom Software Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 26 to 68, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

Independent Auditor's Report

BASIS FOR QUALIFIED OPINION

As explained in notes 18 and 29 to the consolidated financial statements, the directors of the Company did not consolidate the post-acquisition results of a subsidiary disposed of during the year ended 31 December 2007 in accordance with Hong Kong Accounting Standard 27 "Consolidated and Separate Financial Statements" issued by the HKICPA due to the absence of reliable financial information for the subsidiary. The non-consolidation of this subsidiary would affect the profit of the Group for the year ended 31 December 2007 and the related disclosures in the consolidated financial statements. It is not practicable to quantify the effects of the departure from these requirements in respect of the corresponding figures for the year ended 31 December 2007 and our audit opinion on the consolidated financial statements for the year ended 31 December 2007 was modified accordingly.

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

In our opinion, except for the effect on the corresponding figures for the year ended 31 December 2007 of the failure to account for the post acquisition results and the resulting gain or loss on the disposal of the subsidiary as described in the basis for qualified opinion paragraph, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

31 March 2009

Consolidated Income Statement

For the year ended 31 December 2008

| | Notes | 2008 HK\$'000 | 2007 HK\$'000 |
|---|-------|------------------|------------------|
| Revenue | 5 & 6 | 657,831 | 564,507 |
| Cost of services | | (456,001) | (347,165) |
| Gross profit | | 201,830 | 217,342 |
| Other income | 7 | 51,125 | 13,512 |
| Discount on acquisition of additional equity interest in subsidiaries | | 379 | 322 |
| Loss on disposal of subsidiaries | 29 | — | (504) |
| Share of profit (loss) of an associate | 17 | 1 | (75) |
| Impairment loss on a deposit for an investment | 8 | — | (7,048) |
| Administrative expenses | | (86,444) | (85,033) |
| Interest expenses on bank borrowings within five years | | — | (25) |
| Profit before taxation | | 166,891 | 138,491 |
| Taxation | 9 | (35,671) | (20,839) |
| Profit for the year | 10 | 131,220 | 117,652 |
| Attributable to: | | | |
| Equity holders of the Company | | 130,585 | 115,474 |
| Minority interests | | 635 | 2,178 |
| | | 131,220 | 117,652 |
| Earnings per share | 14 | | |
| — Basic | | 11.73 cents | 10.48 cents |
| — Diluted | | 11.66 cents | 10.30 cents |

Consolidated Balance Sheet

At 31 December 2008

| | Notes | 2008 HK\$'000 | 2007 HK\$'000 |
|--|-------|------------------|------------------|
| Non-current assets | | | |
| Plant and equipment | 15 | 17,919 | 19,332 |
| Goodwill | 16 | 9,064 | 8,537 |
| Interest in an associate | 17 | 1,894 | 1,893 |
| Other deposits | 19 | 5,724 | 6,069 |
| | | 34,601 | 35,831 |
| Current assets | | | |
| Trade and other receivables | 20 | 147,753 | 107,128 |
| Amount due from an associate | 21 | 141 | 161 |
| Bank balances and cash | 22 | 538,545 | 444,607 |
| | | 686,439 | 551,896 |
| Current liabilities | | | |
| Trade and other payables | 23 | 80,346 | 70,692 |
| Amount due to a shareholder | 21 | 12 | 12 |
| Tax liabilities | | 29,198 | 11,287 |
| | | 109,556 | 81,991 |
| Net current assets | | | |
| | | 576,883 | 469,905 |
| | | 611,484 | 505,736 |
| Capital and reserves | | | |
| Share capital | 24 | 27,826 | 27,718 |
| Reserves | | 572,149 | 472,792 |
| Equity attributable to equity holders of the Company | | 599,975 | 500,510 |
| Minority interests | | 3,252 | 5,226 |
| Total equity | | | |
| | | 603,227 | 505,736 |
| Non-current liabilities | | | |
| Deferred tax liabilities | 25 | 8,257 | — |
| | | 611,484 | 505,736 |

The consolidated financial statements on pages 26 to 29 were approved and authorised for issue by the Board of Directors on 31 March 2009 and are signed on its behalf by:

Wang Zhiqiang
DIRECTOR

Wang Xubing
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

| | Attributable to equity holders of the Company | | | | | | | | | | | Minority interests HK\$'000 | Total HK\$'000 |
|--|---|---------------------------|--------------------------------------|---|---------------------------------------|--|--|---------------------------------|----------------------------------|-------------------------------|-------------------|--------------------------------|-------------------|
| | 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 | | |
| At 1 January 2007 | 27,417 | 143,206 | — | 10,657 | 5,078 | 24,761 | 2,726 | 10,385 | 9,843 | 150,261 | 384,334 | 8,692 | 393,026 |
| Exchange differences arising on translation of foreign operations and net income directly recognised in equity | — | — | — | — | — | — | — | 24,865 | — | — | 24,865 | 196 | 25,061 |
| Profit for the year | — | — | — | — | — | — | — | — | — | 115,474 | 115,474 | 2,178 | 117,652 |
| Total recognised income for the year | — | — | — | — | — | — | — | 24,865 | — | 115,474 | 140,339 | 2,374 | 142,713 |
| Contribution from a minority shareholder | — | — | — | — | — | — | — | — | — | — | — | 127 | 127 |
| Acquisition of additional equity interest in a subsidiary | — | — | — | — | — | — | — | — | — | — | — | (5,722) | (5,722) |
| Disposal of a subsidiary | — | — | — | — | — | — | — | (34) | — | — | (34) | (185) | (219) |
| Exercise/forfeiture of share options | 301 | 9,258 | — | — | — | — | — | — | (2,631) | 597 | 7,525 | — | 7,525 |
| Recognition of equity-settled share based payments expense | — | — | — | — | — | — | — | — | 8,928 | — | 8,928 | — | 8,928 |
| Transfer | — | — | — | — | — | 145 | — | — | — | (145) | — | — | — |
| Dividend paid | — | — | — | — | — | — | — | — | — | (40,582) | (40,582) | (60) | (40,642) |
| At 31 December 2007 | 27,718 | 152,464 | — | 10,657 | 5,078 | 24,906 | 2,726 | 35,216 | 16,140 | 225,605 | 500,510 | 5,226 | 505,736 |
| Exchange differences arising on translation of foreign operations and net income directly recognised in equity | — | — | — | — | — | — | — | 29,827 | — | — | 29,827 | 539 | 30,366 |
| Profit for the year | — | — | — | — | — | — | — | — | — | 130,585 | 130,585 | 635 | 131,220 |
| Total recognised income for the year | — | — | — | — | — | — | — | 29,827 | — | 130,585 | 160,412 | 1,174 | 161,586 |
| Acquisition of additional equity interest in subsidiaries (note 28) | — | — | — | — | — | — | — | — | — | — | — | (2,776) | (2,776) |
| Liquidation of subsidiaries | — | — | — | — | — | — | — | (343) | — | — | (343) | — | (343) |
| Exercise of share options | 347 | 10,637 | — | — | — | — | — | — | (2,307) | — | 8,677 | — | 8,677 |
| Recognition of equity-settled share based payments expenses | — | — | — | — | — | — | — | — | 4,645 | — | 4,645 | — | 4,645 |
| Repurchase and cancellation of shares | (239) | (1,384) | 1,623 | — | — | — | — | — | — | (11,088) | (11,088) | — | (11,088) |
| Transfer | — | — | — | — | — | 923 | — | — | — | (923) | — | — | — |
| Dividend paid | — | — | — | — | — | — | — | — | — | (62,838) | (62,838) | (372) | (63,210) |
| At 31 December 2008 | 27,826 | 161,717 | 1,623 | 10,657 | 5,078 | 25,829 | 2,726 | 64,700 | 18,478 | 281,341 | 599,975 | 3,252 | 603,227 |

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

Note 2: The other reserve of the Group represents the capitalisation of general reserve fund and enterprise expansion fund in 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 its net profit to the general reserve fund until the fund aggregates to 50% of its 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 an amount due to a shareholder of the Company in 2001.

Consolidated Cash Flow Statement

For the year ended 31 December 2008

| | Notes | 2008 HK\$'000 | 2007 HK\$'000 |
|--|-------|------------------|------------------|
| OPERATING ACTIVITIES | | | |
| Profit before taxation | | 166,891 | 138,491 |
| Adjustments for: | | | |
| Depreciation of plant and equipment | | 7,213 | 5,712 |
| Discount on acquisition of additional equity interest in subsidiaries | | (379) | (322) |
| Impairment loss on a deposit for an investment | | — | 7,048 |
| Interest income | | (6,085) | (4,802) |
| Interest expenses | | — | 25 |
| Loss on disposal of plant and equipment | | 272 | 48 |
| Loss on disposal of subsidiaries | | — | 504 |
| Release of translation reserve on liquidation of subsidiaries | | (343) | — |
| Share-based payment expenses | | 4,645 | 8,928 |
| Share of (profit) loss of an associate | | (1) | 75 |
| Operating cash flows before movements in working capital changes | | 172,213 | 155,707 |
| Increase in trade and other receivables | | (28,815) | (17,582) |
| Decrease (increase) in other deposits | | 275 | (1,208) |
| Increase (decrease) in trade and other payables | | (1,206) | 28,529 |
| Decrease in amount due from an associate | | 20 | 200 |
| Decrease in amount due from an unconsolidated subsidiary | | — | 121 |
| Cash generated from operations | | 142,487 | 165,767 |
| Tax paid | | (12,955) | (16,023) |
| Interest received | | 6,085 | 4,802 |
| NET CASH FROM OPERATING ACTIVITIES | | 135,617 | 154,546 |
| INVESTING ACTIVITIES | | | |
| Purchases of plant and equipment | | (4,992) | (9,357) |
| Acquisition of additional equity interest in subsidiaries | 28 | (3,477) | (3,240) |
| Deposit for establishment of a subsidiary | | (3,431) | — |
| Acquisition of a subsidiary | 27 | (709) | — |
| Proceeds from disposal of plant and equipment | | 185 | 652 |
| Disposal of subsidiaries | 29 | — | 7,272 |
| Deposit for acquisition of an investment | | — | (5,256) |
| NET CASH USED IN INVESTING ACTIVITIES | | (12,424) | (9,929) |
| FINANCING ACTIVITIES | | | |
| Dividend paid | | (62,838) | (40,582) |
| Repurchase and cancellation of shares | | (11,088) | — |
| Dividend paid to minority shareholders | | (372) | (60) |
| Proceeds from issue of shares upon exercise of share options | | 8,677 | 7,525 |
| Repayments of bank borrowings | | — | (520) |
| Interest paid | | — | (25) |
| Contribution from a minority shareholder of a subsidiary | | — | 127 |
| NET CASH USED IN FINANCING ACTIVITIES | | (65,621) | (33,535) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 57,572 | 111,082 |
| CASH AND CASH EQUIVALENTS AT 1 JANUARY | | 444,607 | 315,840 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | | 36,366 | 17,685 |
| CASH AND CASH EQUIVALENTS AT 31 DECEMBER, REPRESENTED BY BANK BALANCES AND CASH | | 538,545 | 444,607 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

1. GENERAL

The Company is a public limited liability company incorporated in the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited. Its holding company is China Way International Limited ("China Way") (incorporated in the British Virgin Islands), which is also its ultimate holding company. The address of the registered office of the Company is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111 Cayman Islands. The Group is principally engaged in the provision of outsourcing software development services and technical support services.

The functional currency of the Company is Renminbi ("RMB"). The consolidated financial statements are presented in Hong Kong dollars ("HK\$"), which is different from the functional currency of the Company because the directors of the Company consider it more appropriate in view of its place of listing.

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

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are or have become effective.

| | |
|--------------------------------|--|
| HKAS 39 & HKFRS 7 (Amendments) | Reclassification of Financial Assets |
| 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 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 not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

| | |
|---|--|
| HKFRSs (Amendments) | Improvements to HKFRSs ¹ |
| HKAS 1 (Revised) | Presentation of Financial Statements ² |
| HKAS 23 (Revised) | Borrowing Costs ² |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements ³ |
| HKAS 32 & 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation ² |
| HKAS 39 (Amendment) | Eligible hedged items ³ |
| HKFRS 1 & HKAS 27 (Amendments) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate ² |
| HKFRS 2 (Amendment) | Vesting Conditions and Cancellations ² |
| HKFRS 3 (Revised) | Business Combinations ³ |
| HKFRS 7 (Amendment) | Improving Disclosures about Financial Instruments ² |
| HKFRS 8 | Operating Segments ² |
| HK (IFRIC) — Int 9 & HKAS 39 (Amendments) | Embedded Derivatives ⁵ |
| HK (IFRIC) — Int 13 | Customer Loyalty Programmes ⁴ |
| HK (IFRIC) — Int 15 | Agreements for the Construction of Real Estate ² |
| HK (IFRIC) — Int 16 | Hedges of a Net Investment in a Foreign Operation ⁶ |
| HK (IFRIC) — Int 17 | Distribution of Non-cash Assets to Owners ³ |
| HK (IFRIC) — Int 18 | Transfers of Assets from Customer ⁷ |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

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

- 1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
- 2 Effective for annual periods beginning on or after 1 January 2009
- 3 Effective for annual periods beginning on or after 1 July 2009
- 4 Effective for annual periods beginning on or after 1 July 2008
- 5 Effective for annual periods ending on or after 30 June 2009
- 6 Effective for annual periods beginning on or after 1 October 2008
- 7 Effective for transfers on or after 1 July 2009

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis and in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA except that a subsidiary has not been consolidated as detailed in note 18. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combination

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured as the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill

Goodwill arising on an acquisition of a business represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

For acquisition of additional equity interest in a subsidiary, goodwill is determined as the difference between the fair value of the consideration and the Group's additional interest in the book value of net assets acquired at the date of acquisition. If the Group's additional interest in the book value of net assets acquired exceeds the fair value of the consideration at the date of acquisition, the excess is credited to the consolidated income statement.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Revenue from provision of outsourcing software development services and technical support services is recognised when the services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK\$) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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

Borrowing costs

All borrowing costs are recognised as and included in interest expenses on bank borrowings within five years in the consolidated income statement in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Plant and equipment

Plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the assets. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Impairment losses (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Retirement benefits costs

Payments to defined contribution retirement benefits plans are charged as an expense when employees have rendered service entitling them to the contributions.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets

The Group's financial assets are classified into one of the two categories, including loans and receivable and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

Interest income is recognised on an effective interest basis.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivable (including trade and other receivables, amount due from an associate and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss ("FVTPL"), loans and receivables or held-to-maturity investments. The Group designated unlisted equity securities as available-for-sale financial assets.

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy on impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets

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

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

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

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

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

For financial assets measured at amortised cost, impairment losses are reversed through profit or loss in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below:

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

The Group's financial liabilities including trade and other payables and amount due to a shareholder are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. 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.

Derecognition

Financial assets

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment transactions — Equity-settled share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained earnings.

Reclassification

To conform with the current year's presentation, staff social security insurance of HK\$6,166,000 for the year ended 31 December 2007 has been reclassified from administrative expenses to cost of services.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 3, management has made various estimates based on experience, expectations of the future and other information. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of available-for-sale investments

Equity investments designated as available-for-sale are stated at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. Management judgement is required in determining fair value of the investments, and in determining the impairment loss, if any. The estimation of the fair value of the investments includes some assumptions not supported by observable market prices or rates. As at 31 December 2008, the carrying amount of the available-for-sale investments was nil. Details of the assumptions used are disclosed in note 8.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

5. REVENUE

| | 2008 HK\$'000 | 2007 HK\$'000 |
|---|------------------|------------------|
| Outsourcing software development services | 659,662 | 566,947 |
| Technical support services | 30,414 | 22,805 |
| | 690,076 | 589,752 |
| Business tax and local government levies | (32,245) | (25,245) |
| | 657,831 | 564,507 |

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

The Group is principally engaged in the provision of outsourcing software development services and technical support services. For the year ended 31 December 2008, 95.59% (2007: 96.13%) of gross revenue are generated from outsourcing software development services, and accordingly, no business segment analysis is presented.

For management purposes, the Group is currently engaged in the provision of services in two markets, the PRC and Japan. The Group's primary format for reporting segment information is geographical segment by location of customers.

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 2008

| | PRC HK\$'000 | Japan HK\$'000 | Consolidated HK\$'000 |
|---|-----------------|-------------------|--------------------------|
| Income statement | | | |
| Revenue | 70,344 | 587,487 | 657,831 |
| Segment results | 18,137 | 156,168 | 174,305 |
| Share of profit of an associate | 1 | — | 1 |
| Discount on acquisition of additional equity interest in subsidiaries | — | 379 | 379 |
| Unallocated other income | | | 6,917 |
| Unallocated corporate expenses | | | (14,711) |
| Profit before taxation | | | 166,891 |
| Taxation | | | (35,671) |
| Profit for the year | | | 131,220 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Year ended 31 December 2008 (Continued)

| | PRC HK\$'000 | Japan HK\$'000 | Consolidated HK\$'000 |
|-----------------------------------|-----------------|-------------------|--------------------------|
| Balance sheet | | | |
| Segment assets | 47,182 | 129,591 | 176,773 |
| Interest in an associate | 1,894 | — | 1,894 |
| Unallocated corporate assets | | | 542,373 |
| | | | 721,040 |
| Segment liabilities | 12,994 | 60,747 | 73,741 |
| Unallocated corporate liabilities | | | 44,072 |
| | | | 117,813 |

| | PRC HK\$'000 | Japan HK\$'000 | Corporate HK\$'000 | Consolidated HK\$'000 |
|---|-----------------|-------------------|-----------------------|--------------------------|
| Other information | | | | |
| Additions to plant and equipment | 739 | 3,978 | 275 | 4,992 |
| Depreciation | 1,132 | 5,684 | 397 | 7,213 |
| Loss on disposal of plant and equipment | 11 | 261 | — | 272 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Year ended 31 December 2007

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

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For the year ended 31 December 2008

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Year ended 31 December 2007 (Continued)

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

7. OTHER INCOME

| | 2008 HK\$'000 | 2007 HK\$'000 |
|--|------------------|------------------|
| Interest income | 6,085 | 4,802 |
| Government subsidies | 12,025 | 642 |
| Gain on sale of held-for-trading equity securities | 1,413 | 6,534 |
| Net foreign exchange gain | 29,869 | — |
| Others | 1,733 | 1,534 |
| | 51,125 | 13,512 |

Government subsidies include government concession on levies of HK\$8,804,000 (2007: HK\$642,000) and subsidies from local government for the employment of new university graduates of HK\$3,109,000 (2007: nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

8. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

| | 2008 HK\$'000 | 2007 HK\$'000 |
|----------------------------|------------------|------------------|
| Unlisted-equity securities | 7,048 | — |
| Provision for impairment | (7,048) | — |
| | — | — |

The above unlisted investment represents investment in unlisted equity securities issued by a private entity, Beijing Jbridge Information Technology Co., Ltd ("Beijing Jbridge") which is incorporated in the PRC.

On 14 March 2006, SinoCom Holdings (BVI) Limited ("SinoCom BVI"), a wholly owned subsidiary, entered into a sale and purchase agreement (the "Agreement") with Mr. Jiang Xiufeng ("Jiang"), an independent third party, pursuant to which SinoCom BVI has conditionally agreed to acquire from Jiang a 22% equity interest in Beijing Jbridge, for a consideration of RMB6,600,000 to be satisfied in cash. A deposit of RMB1,800,000 was paid by SinoCom BVI to Jiang in relation to the acquisition.

The completion of the acquisition was conditional upon satisfaction of certain precedent conditions. On 15 September 2006, SinoCom BVI informed Jiang for the termination of the Agreement since, among others, one of the conditions was not fulfilled. Jiang did not accept the termination and applied an arbitration to the China International Economic and Trade Arbitration Commission ("CIETAC") in November 2006 against SinoCom BVI for specific performance of the Agreement. Jiang requested SinoCom BVI to pay him the remaining acquisition consideration amounting to RMB4,800,000 and legal costs and other expenses incurred.

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

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

At 31 December 2007, the relevant legal procedures for transfer of ownership was not completed. SinoCom BVI had no significant influence over Beijing Jbridge, although the acquisition consideration had been paid amounting to a total of RMB6,600,000 (equivalent to approximately HK\$7,048,000). The amount paid was classified under current assets at 31 December 2007. The directors of the Company assessed the recoverable amount of the deposits and determined that the investment cost was fully impaired as at 31 December 2007 and the amount was charged to the consolidated income statement.

The transfer of the 22% equity interest in Beijing Jbridge was completed in May 2008. Beijing Jbridge is not regarded as an associate of the Group because the Group has less than one-fifth of the voting power of Beijing Jbridge under arrangements with other investors. The investment is measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

8. AVAILABLE-FOR-SALE INVESTMENTS (Continued)

Impairment loss was calculated based on the difference between the cost and fair value of the investment. Fair value is estimated using a discounted cash flow model, which included some assumptions that are not supportable by observable market prices or rates. In determining the fair value, an earnings growth factor of 3% and a risk adjusted discount factor of 18% are used.

9. TAXATION

| | 2008 HK\$'000 | 2007 HK\$'000 |
|--------------------------------|------------------|------------------|
| Current tax: | | |
| PRC Enterprise Income Tax | 16,331 | 13,844 |
| Japan income tax | 11,083 | 5,666 |
| | 27,414 | 19,510 |
| Underprovision in prior years: | | |
| Japan income tax | — | 1,329 |
| Deferred tax (note 25): | | |
| Current year | 8,257 | — |
| | 35,671 | 20,839 |

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, the Group adopted a unified income tax rate of 25% for its subsidiaries in the PRC from 1 January 2008 except for certain subsidiaries entitled to preferential tax holiday and concession granted under the New Law as detailed below.

SinoCom Beijing is recognised as a key software enterprise under the State plan by relevant PRC government authorities in January 2009 under the New Law. Accordingly, SinoCom Beijing is entitled to the reduced income tax rate of 10% as compared to the unified tax rate of 25% for the year ended 31 December 2008.

Shensoft Computer Technology (Shanghai) Company Limited ("Shensoft Shanghai") and Dalian SinoCom High Technology Software Limited ("Dalian SinoCom") are eligible for tax holidays and concession as follows:

- (a) Exemption for PRC Enterprise Income Tax for two years starting from the respective first profit-making year, and
- (b) Followed by a 50% reduction in the next three years.

Both Shensoft Shanghai and Dalian SinoCom are entitled to the tax holidays and concessions from 2006.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

9. TAXATION (Continued)

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

Taxation arising in Japan comprises corporate tax, corporate enterprise tax and corporate inhabitant tax. Corporate tax 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\$686,000, 2007: HK\$547,000) and 30% on the portion of taxable income in excess of JPY8,000,000. Corporate enterprise tax is calculated at a progressive statutory rate of 5.25% on the portion of taxable income not exceeding JPY4,000,000 (equivalent to approximately HK\$343,000, 2007: HK\$274,000), 7.665% on the portion of taxable income in excess of JPY4,000,000 but not exceeding JPY8,000,000 and 10.08% on the portion of taxable income in excess of JPY8,000,000. Corporate inhabitant tax is calculated at a fixed tax rate of 17.3% or 20.7% of the corporate tax, depending on the amount of the corporate tax per annum, also with a fixed yearly amount from JPY70,000 (equivalent to approximately HK\$6,000, 2007: HK\$5,000) to JPY200,000 (equivalent to approximately HK\$17,000, 2007: HK\$14,000), depending on the headcount and capital of the entities.

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

| | 2008 HK\$'000 | 2007 HK\$'000 |
|---|------------------|------------------|
| Profit before taxation | 166,891 | 138,491 |
| Taxation at the applicable PRC | | |
| Enterprise Income Tax rate of 25% (2007: 33%) | 41,723 | 45,702 |
| Tax effect of expenses not deductible in determining taxable profit | 3,045 | 8,044 |
| Effect of tax exemptions granted to PRC subsidiaries | — | (3,818) |
| Effect of tax concessions granted to PRC subsidiaries | (22,423) | (31,776) |
| Underprovision in respect of prior year | — | 1,329 |
| Withholding tax on the profits of PRC subsidiaries | 7,159 | — |
| Effect of different tax rates of subsidiaries operating in other jurisdiction | 6,167 | 1,358 |
| Income tax expenses | 35,671 | 20,839 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

10. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging (crediting):

| | 2008 HK\$'000 | 2007 HK\$'000 |
|---|------------------|------------------|
| Auditors' remuneration | 3,029 | 2,001 |
| Net foreign exchange (gain) loss | (29,869) | 4,548 |
| Depreciation of plant and equipment | 7,213 | 5,712 |
| Loss on disposal of plant and equipment | 272 | 48 |
| Staff costs: | | |
| Directors' emoluments (note 11) | 12,719 | 11,175 |
| Other staff costs | | |
| — Salaries and other benefits | 363,405 | 260,325 |
| — Share-based payment expenses | 4,645 | 8,928 |
| — Retirement benefits schemes contributions | 32,208 | 16,940 |
| | 412,977 | 297,368 |

11. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the four (2007: four) directors were as follows:

| | Wang Zhiqiang HK\$'000 | Wang Xubing HK\$'000 | Siu Kwok Leung HK\$'000 | Shi Chongming HK\$'000 | Total HK\$'000 |
|--|------------------------------|-------------------------|-------------------------------|------------------------------|-------------------|
| 2008 | | | | | |
| Salaries and other benefits | 2,069 | 2,069 | 1,275 | 1,684 | 7,097 |
| Retirement benefits scheme contribution | 49 | 49 | — | 84 | 182 |
| Bonus (Note) | 1,904 | 1,904 | 544 | 1,088 | 5,440 |
| Total emoluments | 4,022 | 4,022 | 1,819 | 2,856 | 12,719 |
| 2007 | | | | | |
| Salaries and other benefits | 1,647 | 1,647 | 1,121 | 1,347 | 5,762 |
| Retirement benefits scheme contribution | 22 | 22 | — | 75 | 119 |
| Bonus (Note) | 1,853 | 1,853 | 529 | 1,059 | 5,294 |
| Total emoluments | 3,522 | 3,522 | 1,650 | 2,481 | 11,175 |

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

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2007: four) were directors of the Company whose emoluments are included in the disclosure in note 11 above. The emoluments of the remaining one (2007: one) individual were as follows:

| | 2008 HK\$'000 | 2007 HK\$'000 |
|---|------------------|------------------|
| Salaries and other benefits | 1,135 | 805 |
| Share-based payment expenses | 232 | 22 |
| Retirement benefits schemes contributions | 91 | 77 |
| | 1,458 | 904 |

13. DIVIDENDS

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. 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.

In respect of the financial year ended 31 December 2008, the directors propose a final dividend of HK6.00 cents per share and a special dividend of HK4.00 cents per share. The dividends are subject to approval by shareholders at the Annual General Meeting.

14. EARNINGS PER SHARE

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

| | 2008 HK\$'000 | 2007 HK\$'000 |
|---|------------------|------------------|
| Earnings | | |
| Profit for the year attributable to equity holders of the Company | 130,585 | 115,474 |

Number of shares

| | 2008 '000 | 2007 '000 |
|--|--------------|--------------|
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 1,113,436 | 1,101,847 |
| Effect of dilutive potential ordinary shares: Share options issued by the Company | 6,288 | 19,323 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | 1,119,724 | 1,121,170 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

15. PLANT AND EQUIPMENT

| | Office equipment HK\$'000 | Motor vehicles HK\$'000 | Leasehold improvements HK\$'000 | Total HK\$'000 |
|-------------------------------------|---|---------------------------------------|---|--------------------------|
| COST | | | | |
| At 1 January 2007 | 18,495 | 4,167 | 3,912 | 26,574 |
| Exchange adjustments | 1,580 | 364 | 381 | 2,325 |
| Additions | 5,896 | 1,690 | 1,771 | 9,357 |
| Disposals | (1,324) | — | (839) | (2,163) |
| At 31 December 2007 | 24,647 | 6,221 | 5,225 | 36,093 |
| Exchange adjustments | 1,874 | 470 | 380 | 2,724 |
| Additions | 3,731 | 137 | 1,124 | 4,992 |
| Disposals | (2,436) | (440) | (1,625) | (4,501) |
| At 31 December 2008 | 27,816 | 6,388 | 5,104 | 39,308 |
| ACCUMULATED DEPRECIATION | | | | |
| At 1 January 2007 | 7,638 | 2,115 | 1,483 | 11,236 |
| Exchange adjustments | 902 | 176 | 198 | 1,276 |
| Provided for the year | 3,489 | 693 | 1,530 | 5,712 |
| Disposals | (624) | — | (839) | (1,463) |
| At 31 December 2007 | 11,405 | 2,984 | 2,372 | 16,761 |
| Exchange adjustments | 1,020 | 272 | 167 | 1,459 |
| Provided for the year | 4,588 | 840 | 1,785 | 7,213 |
| Disposals | (2,096) | (395) | (1,553) | (4,044) |
| At 31 December 2008 | 14,917 | 3,701 | 2,771 | 21,389 |
| CARRYING VALUES | | | | |
| At 31 December 2008 | 12,899 | 2,687 | 2,333 | 17,919 |
| At 31 December 2007 | 13,242 | 3,237 | 2,853 | 19,332 |

The above items of plant and equipment are depreciated on a straight-line basis at the following rates per annum:

| | |
|------------------------|--|
| Office equipment | 20% |
| Motor vehicles | 20% |
| Leasehold improvements | Over the shorter of the term of the lease, or 33 ¹ / ₃ %–50% |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

16. GOODWILL

| | HK\$'000 |
|----------------------|----------|
| Cost | |
| At 1 January 2007 | 7,956 |
| Exchange adjustments | 581 |
| At 31 December 2007 | 8,537 |
| Exchange adjustments | 527 |
| At 31 December 2008 | 9,064 |

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units ("CGUs") that are expected to benefit from that business combination. The carrying amount of goodwill had been allocated as follows:

| | 2008 HK\$'000 | 2007 HK\$'000 |
|--|------------------|------------------|
| Outsourcing software service | | |
| SinoCom-Artm Technology Limited ("SinoCom-Artm Technology") | 2,527 | 2,380 |
| SinoCom Shensoft Holdings (BVI) limited ("SinoCom Shensoft") | 6,537 | 6,157 |
| | 9,064 | 8,537 |

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. During the year ended 31 December 2008, the directors of the Company determine that there are no impairments of any of its CGUs containing goodwill.

The recoverable amounts of these CGUs have been determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a one-year period, and a discount rate of 18% (2007: 18%). Cash flows beyond one-year period are extrapolated using a growth rate of 12% (2007: 13%) for SinoCom-Artm Technology and 15% (2007: 13%) for SinoCom Shensoft, respectively, over the projected period of five years for impairment assessment purpose. These growth rates are based on the relevant industry growth forecasts and do not exceed the average long-term growth rates for the relevant industries. Other key assumptions for the value in use calculation and the budgeted gross margins, which are determined based on the CGUs' past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amounts of these CGUs to exceed the aggregate recoverable amount of these CGUs.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

17. INTEREST IN AN ASSOCIATE

| | 2008 HK\$'000 | 2007 HK\$'000 |
|---|------------------|------------------|
| Cost of investment in an unlisted associate | 2,072 | 2,072 |
| Share of post-acquisition loss | (178) | (179) |
| | 1,894 | 1,893 |

As at 31 December 2008 and 2007, the Group had an equity interest in the following associate:

| Name of entity | Form of business structure | Country of incorporation and principal place of operation | Class of capital held | Proportion of nominal value of registered capital held by the Group % | Proportion of voting power held % | Principal activity |
|---|----------------------------|---|-----------------------|--|--------------------------------------|----------------------|
| DIR System Technology (Beijing) Co., Ltd. | Incorporated | PRC | Registered capital | 30 | 30 | Software outsourcing |

The summarised financial information in respect of the Group's associate is set out below:

| | 2008 HK\$'000 | 2007 HK\$'000 |
|--|------------------|------------------|
| Total assets | 6,537 | 6,448 |
| Total liabilities | (224) | (137) |
| Net assets | 6,313 | 6,311 |
| Group's share of net assets of the associate | 1,894 | 1,893 |
| Revenue | 3,008 | 1,579 |
| Profit (loss) for the year | 2 | (248) |
| Group's share of profit (loss) of the associate for the year | 1 | (75) |

Notes to the Consolidated Financial Statements

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18. INVESTMENT IN AN UNCONSOLIDATED SUBSIDIARY/AMOUNT DUE FROM 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 the acquisition by the Group in August 2006.

The subsidiary was disposed of during the year ended 31 December 2007 for a cash consideration of JPY120,000,000 (equivalent to approximately HK\$7,651,000).

19. OTHER DEPOSITS

Other deposits represent rental deposits paid under operating leases receivable after one year. The fair value of the Group's other deposits approximated to the corresponding carrying amounts.

20. TRADE AND OTHER RECEIVABLES

| | 2008 HK\$'000 | 2007 HK\$'000 |
|-----------------------------------|------------------|------------------|
| Trade receivables | 103,963 | 88,398 |
| Other receivables | 30,989 | 13,678 |
| Other deposits | 5,056 | 3,310 |
| Prepayments | 7,745 | 1,742 |
| Total trade and other receivables | 147,753 | 107,128 |

The Group allows an average credit period of 30 to 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 dates:

| | 2008 HK\$'000 | 2007 HK\$'000 |
|---------------|------------------|------------------|
| 0-30 days | 97,689 | 80,257 |
| 31-60 days | 4,823 | 6,723 |
| 61-90 days | 739 | 397 |
| 91-180 days | 120 | 1,021 |
| Over 180 days | 592 | — |
| | 103,963 | 88,398 |

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.

Notes to the Consolidated Financial Statements

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20. TRADE AND OTHER RECEIVABLES (Continued)

Included in the Group's trade receivable balance are debtors with an aggregate carrying amount of HK\$1,259,000 (2007: HK\$1,269,000) which are past due at the balance sheet date for which the Group has not provided for an impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 130 days (2007: 123 days).

Ageing of trade receivables which are past due but not impaired:

| | 2008 HK\$'000 | 2007 HK\$'000 |
|---------------|------------------|------------------|
| 61–90 days | 547 | 248 |
| 91–180 days | 120 | 1,021 |
| Over 180 days | 592 | — |
| | 1,259 | 1,269 |

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

| | 2008 HK\$'000 | 2007 HK\$'000 |
|------|------------------|------------------|
| JPY | 1,204 | 1,398 |
| HK\$ | 3 | 223 |

21. AMOUNTS WITH RELATED PARTIES

| | 2008 HK\$'000 | 2007 HK\$'000 |
|------------------------------|------------------|------------------|
| Amount due from an associate | 141 | 161 |
| Amount due to a shareholder | 12 | 12 |

The amount due from an associate is unsecured, interest-free and recoverable on demand. The amount due to a shareholder is unsecured, interest-free and repayable on demand.

Notes to the Consolidated Financial Statements

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22. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits and carry interest at effective interest rates ranging from 0.001% to 4.70 % (2007: 0.001% to 5.25%) per annum.

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

| | 2008 HK\$'000 | 2007 HK\$'000 |
|------------------------------|------------------|------------------|
| United States Dollar ("USD") | 16,303 | 88,372 |
| JPY | 49,304 | 33,812 |
| HK\$ | 23,587 | 13,163 |

23. TRADE AND OTHER PAYABLES

| | 2008 HK\$'000 | 2007 HK\$'000 |
|---|------------------|------------------|
| Trade payables | 3,283 | 2,876 |
| Wages and salaries payable | 62,812 | 39,206 |
| Accruals | 1,770 | 3,874 |
| Other tax payables | 6,948 | 17,417 |
| Payable for outstanding consideration for acquisition of additional equity interest in a subsidiary (note 28) | 1,080 | 2,160 |
| Other payables | 4,453 | 5,159 |
| | 80,346 | 70,692 |

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

| | 2008 HK\$'000 | 2007 HK\$'000 |
|---------------|------------------|------------------|
| 0-30 days | 2,382 | 1,432 |
| 31-60 days | 901 | 1,365 |
| 61-90 days | — | 33 |
| 91-180 days | — | 26 |
| Over 180 days | — | 20 |
| | 3,283 | 2,876 |

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

| | 2008 HK\$'000 | 2007 HK\$'000 |
|------|------------------|------------------|
| HK\$ | 2,750 | 1,531 |

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For the year ended 31 December 2008

24. SHARE CAPITAL

| | Number of shares '000 | HK\$'000 |
|---|-----------------------------|----------|
| Authorised: | | |
| Ordinary shares of HK\$0.025 each, at 1 January 2007, 31 December 2007 and 31 December 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) | 13,884 | 347 |
| Repurchase and cancellation of shares (Note iii) | (9,552) | (239) |
| At 31 December 2008 | 1,113,051 | 27,826 |

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 (see note 26).
- (ii) During the year ended 31 December 2008, share options to subscribe for 13,884,000 ordinary shares of HK\$0.025 each were exercised at HK\$0.625 per share (see note 26).
- (iii) During the year ended 31 December 2008, the Company repurchased 9,552,000 ordinary shares through The Stock Exchange of Hong Kong Limited as follows:

| Month of repurchase | Number of shares '000 | Price per share | | Aggregate consideration paid HK\$'000 |
|---------------------|-----------------------------|-----------------|----------------|--|
| | | Highest HK\$ | Lowest HK\$ | |
| June | 2,012 | 1.32 | 1.26 | 2,620 |
| July | 3,934 | 1.21 | 1.15 | 4,666 |
| August | 3,606 | 1.08 | 1.00 | 3,802 |

The above shares were cancelled upon repurchase.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

Notes to the Consolidated Financial Statements

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25. DEFERRED TAXATION

The following are the major deferred tax liabilities recognised and movements thereon during the current and prior year:

| | Prepaid expenses HK\$'000 | Distributable profits of the PRC subsidiaries HK\$'000 | Total HK\$'000 |
|---|---|--|--------------------------|
| At 1 January 2007 and 31 December 2007 | — | — | — |
| Charge to consolidated income statement for the year | 1,098 | 7,159 | 8,257 |
| At 31 December 2008 | 1,098 | 7,159 | 8,257 |

Under the tax law of Japan, expenses are deductible for tax purposes when the amount is paid. Deferred tax liabilities have accordingly been recognised in respect of the prepaid expenses at the balance sheet date.

Under the New law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries.

Withholding tax is also imposed on dividends declared by the subsidiaries in Japan. At the balance sheet date, the aggregate amount of temporary differences with undistributed earnings of the subsidiaries in Japan for which deferred tax liabilities have not been recognised was HK\$6,269,000 (2007: HK\$2,141,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

26. SHARE OPTION SCHEME

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

At 31 December 2008, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 43,750,000 (2007: 57,554,000), representing 3.93% (2007: 5.19%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Options may be exercised on the date of grant of the share option or after the date on which the share option is granted over a period as the Board of Directors may determine up to the tenth anniversary of the date of grant. No consideration is payable on the grant of an option. Options are exercisable at a price that is determinable by the directors of the Company, and will not be less than the higher of the closing price of the Company's shares on the date of grant, and the average closing price of the shares for the five business days immediately preceding the date of grant.

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26. SHARE OPTION SCHEME (Continued)

Details of specific category of options are as follows:

| Date of grant | Vesting period | Original exercise price | Exercise price as adjusted after share subdivision |
|-------------------|-----------------------|-------------------------|--|
| 10/11/2004 | 10/11/2004–09/05/2008 | HK\$2.50 | HK\$0.625 |
| 24/01/2006 | 24/01/2006–23/01/2010 | HK\$5.55 | HK\$1.3875 |
| 15/01/2007 (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 |

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

| Date of grant | Outstanding at 1/1/2008 | Granted during year | Granted upon modification during the year (Note) | Cancelled upon modification during the year (Note) | Exercised during year | Forfeited during year | Outstanding at 31/12/2008 |
|---------------|-------------------------|---------------------|--|--|-----------------------|-----------------------|---------------------------|
| 10/11/2004 | 23,484,000 | — | — | — | (13,884,000) | (180,000) | 9,420,000 |
| 24/01/2006 | 18,040,000 | — | — | — | — | (400,000) | 17,640,000 |
| 15/01/2007 | 16,030,000 | — | — | (15,750,000) | — | (280,000) | — |
| 28/01/2008 | — | 1,200,000 | 15,750,000 | — | — | (260,000) | 16,690,000 |
| | 57,554,000 | 1,200,000 | 15,750,000 | (15,750,000) | (13,884,000) | (1,120,000) | 43,750,000 |

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

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

The options granted on 10 November 2004 may be exercisable during the period from the first semi-anniversary of the date of grant (the "first semi-anniversary"), being 10 May 2005 to 9 November 2014 (both days inclusive), in the following manner:

- no part of the option may be exercisable prior to and including 10 May 2005, the first semi-anniversary;
- 25% of the option will be exercisable at any time after the first semi-anniversary up to and including 9 November 2014;

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For the year ended 31 December 2008

26. SHARE OPTION SCHEME (Continued)

- (c) a further 25% of the option will be exercisable at any time on or after the first anniversary of the first semi-anniversary up to and including 9 November 2014;
- (d) another 25% of the option will be exercisable at any time on or after the second anniversary of the first semi-anniversary up to and including 9 November 2014; and
- (e) the remaining 25% of the opinion will be exercisable at any time on or after the third anniversary of the first semi-anniversary up to and including 9 November 2014.

The options granted on 24 January 2006 may be exercisable during the period from the first anniversary of the date of grant, being 24 January 2007 to 23 January 2016 (both days inclusive), in the following manner:

- (a) no part of the options may be exercisable prior to the first anniversary of the date of grant;
- (b) 25% of the options will be exercisable at any time on or after the first anniversary of the date of grant up to and including 23 January 2016;
- (c) a further 25% of the options will be exercisable at any time on or after the second anniversary of the date of grant up to and including 23 January 2016;
- (d) another 25% of the options will be exercisable at any time on or after the third anniversary of the date of grant up to and including 23 January 2016; and
- (e) the remaining 25% of the options will be exercisable at any time on or after the fourth anniversary of the date of grant up to and including 23 January 2016.

The options granted on 15 January 2007 may be exercisable during the period from the first anniversary of the date of grant, being 15 January 2008 to 14 January 2017 (both days inclusive), in the following manner:

- (a) no part of the options may be exercisable prior to the first anniversary of the date of grant;
- (b) 25% of the options will be exercisable at any time on or after the first anniversary of the date of grant up to and including 14 January 2017;
- (c) a further 25% of the options will be exercisable at any time on or after the second anniversary of the date of grant up to and including 14 January 2017;
- (d) another 25% of the options will be exercisable at any time on or after the third anniversary of the date of grant up to and including 14 January 2017; and
- (e) the remaining 25% of the options will be exercisable at any time on or after the fourth anniversary of the date of grant up to and including 14 January 2017.

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26. SHARE OPTION SCHEME (Continued)

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 2009 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 fourth 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 17 January 2018.

At 31 December 2008, 22,112,500 (2007: 11,224,000) share options are exercisable. The closing price of the Company's shares immediately before 10 November 2004, 24 January 2006, 15 January 2007 and 28 January 2008, the date of grant of options, was HK\$2.50, HK\$5.55, HK\$1.73 and HK\$1.34, respectively.

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised in the year ended 31 December 2008 was HK\$1.50 (2007: HK\$1.62).

The options granted on 10 November 2004 have a fair value of HK\$0.689 per option which was determined at the date of grant using the Black-Scholes pricing model.

The options granted on 24 January 2006 have a fair value of HK\$2.13 per option which was determined at the date of grant using the Black-Scholes pricing model.

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

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.

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

| Grant date | 28 January 2008 | 15 January 2007 | 24 January 2006 | 10 November 2004 |
|-------------------------|-----------------|-----------------|-----------------|------------------|
| Exercise price | HK\$1.36 | HK\$1.73 | HK\$5.55 | HK\$2.50 |
| Expected life | 6.50 years | 6.25 years | 6.25 years | 4 years |
| Expected volatility | 43% | 42% | 44% | 39% |
| Expected dividend yield | 2.5% | 2.5% | 2.5% | 2.5% |
| Risk free rate | 2.11% | 3.85% | 4.07% | 2.48% |

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For the year ended 31 December 2008

26. SHARE OPTION SCHEME (Continued)

The original exercise prices of share options granted on 24 January 2006 and 10 November 2004 were adjusted to HK\$1.3875 and HK\$0.625 respectively, as a result of the share subdivision that occurred in 2006.

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.

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.

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.

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 |

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\$1,151,000, of which, HK\$777,000 was recognised for the year ended 31 December 2008 and HK\$374,000 will be expensed over the remaining vesting period.

27. ACQUISITION OF A SUBSIDIARY

In January 2008, the Group entered into an agreement with China Way, 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).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

27. ACQUISITION OF A SUBSIDIARY (Continued)

The net assets acquired in the transaction are as follows:

| | HK\$'000 |
|--|----------|
| Net assets acquired: | |
| Other receivables | 739 |
| Other payables | (30) |
| | 709 |
| Total consideration, satisfied by cash | 709 |
| Cash outflow arising on acquisition | |
| Cash consideration paid | (709) |

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

28. ACQUISITION OF ADDITIONAL EQUITY INTEREST IN SUBSIDIARIES

In February 2007, the Group entered into an agreement to acquire a further 45% equity interest in an existing non-wholly subsidiary, SinoCom Shensoft, which is incorporated in the British Virgin Islands and is the holding company of Shensoft Shanghai and Shensoft Computer Technology Co., Limited, companies principally engaged in the provision of outsourcing software development 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, HK\$1,080,000 and HK\$884,000 were paid in February 2007, in January 2008 and in February 2009, respectively, while the remaining consideration of HK\$196,000 is to be paid in November 2009. In the opinion of the Company's directors, the carrying amounts of acquired net assets approximate to their fair value and the discount amounting to HK\$322,000 was recognised in the consolidated income statement for the year ended 31 December 2007.

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) which was paid in March 2008. In the opinion of the Company's 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 consolidated income statement for the year ended 31 December 2008.

In July 2008, the Group entered into an agreement to acquire a further 5.42% equity interest in an existing non-wholly owned subsidiary, SinoCom Development Holding Limited ("SinoCom Development") from a minority owner of the subsidiary for a cash consideration of HK\$429,000 which was paid in August 2008. In November 2008, the Group entered into another agreement to acquire the remaining 5.42% equity interest in SinoCom Development from another minority owner of the subsidiary for a cash consideration of HK\$428,000 which was paid in November 2008. SinoCom Development is incorporated in the British Virgin Islands and is the holding company of SinoCom Innovative Technology Software Limited ("SinoCom Innovative") and SinoCom Japan High Technology Software Limited, companies principally engaged in the provision of outsourcing software development services to customers in Japan. In the opinion of the Company's directors, the carrying amounts of acquired net assets approximate to their fair value and the discount amounting to HK\$56,000 was recognised in the consolidated income statement for the year ended 31 December 2008.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

29. DISPOSAL OF SUBSIDIARIES

On 13 July 2007, SinoCom BVI entered into an agreement with IKEDA TERUO, one of the existing shareholders of MIS, to dispose of its 30% equity interest in MIS for a cash consideration of JPY48,000,000 (equivalent to approximately HK\$3,060,000). On the same day, SinoCom BVI entered into an agreement with Global Risk Systems Japan Limited, an independent third party, to dispose of its remaining 45% equity interest in MIS for a cash consideration of JPY72,000,000 (equivalent to approximately HK\$4,591,000). Following the completion of the disposal in August 2007, SinoCom BVI ceases to have any interest in MIS.

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

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

NOH

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

29. DISPOSAL OF SUBSIDIARIES (Continued)

MIS

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

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

30. OPERATING LEASE COMMITMENTS

The Group as lessee

| | 2008 HK\$'000 | 2007 HK\$'000 |
|--|------------------|------------------|
| Minimum lease payments paid under operating leases during the year in respect of office premises | 46,398 | 36,947 |

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

| | 2008 HK\$'000 | 2007 HK\$'000 |
|---------------------------------------|------------------|------------------|
| Within one year | 38,777 | 29,884 |
| In the second to fifth year inclusive | 23,945 | 28,660 |
| | 62,722 | 58,544 |

Operating lease payments represent rentals payable by the Group for its office premises. Leases are negotiated and rentals are fixed for lease terms from one to three years.

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31. RETIREMENT BENEFITS SCHEMES

The employees of subsidiaries registered in the PRC are members of the pension scheme operated by the PRC local government. Those PRC subsidiaries are required to contribute a certain percentage of the relevant portion of the payroll of these employees to the pension scheme to fund the benefits. The only obligation of the Group in respect of the pension scheme is the required contributions under the pension scheme.

The employees of subsidiaries registered in Japan are members of the pension scheme operated by the Japan local government. Those subsidiaries in Japan are required to contribute certain pre-fixed amounts of contribution, according to the level of income for each employee to the pension scheme to fund the benefits. The only obligation of the Group in respect of the pension scheme is the required contributions under the pension scheme.

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

| | 2008 HK\$'000 | 2007 HK\$'000 |
|--|------------------|------------------|
| Retirement benefits contributions made during the year | 32,390 | 17,059 |

As at 31 December 2008, contributions of HK\$7,688,000 (2007: HK\$856,000) due in respect of the year ended 31 December 2008 had not been paid over the schemes.

32. RELATED PARTY TRANSACTIONS

During the year ended 31 December 2008, the Group received revenue from outsourcing software development services of HK\$291,000 (2007: HK\$312,000) and technical support services of HK\$1,515,000 (2007: HK\$305,000) from an associate. In January 2008, the Group acquired an entire equity interest in SinoCom Holdings Japan for a consideration of JPY9,662,000 (equivalent to approximately HK\$709,000) from a shareholder, further details of which are set out in note 27. In addition, details of balances with related parties at the balance sheet date are set out in the consolidated balance sheet and in note 21.

Compensation of key management personnel

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

| | 2008 HK\$'000 | 2007 HK\$'000 |
|---|------------------|------------------|
| Salaries and other benefits | 22,808 | 20,225 |
| Share-based payment expenses | 486 | 604 |
| Retirement benefits schemes contributions | 959 | 722 |
| | 24,253 | 21,551 |

The remuneration of directors is determined by the salary review committee. The remuneration of the key executives is determined by the internal salary review committee of five members comprising the chairman, president, and three vice presidents of the Group having regard to the performance of individuals and market trends.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

33. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT

(a) Categories of financial instruments

| | 2008 HK\$'000 | 2007 HK\$'000 |
|---|------------------|------------------|
| Financial assets | | |
| Loans and receivables (including cash and cash equivalents) | 673,638 | 546,844 |
| Financial liabilities | | |
| Liabilities measured at amortised cost | 71,640 | 49,413 |

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

(b) Financial risk management objectives and policies

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

(i) Market risk

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

Foreign currency risk

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

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

| | Liabilities | | Assets | |
|------|------------------|------------------|------------------|------------------|
| | 2008 HK\$'000 | 2007 HK\$'000 | 2008 HK\$'000 | 2007 HK\$'000 |
| USD | — | — | 16,303 | 88,372 |
| JPY | — | — | 50,508 | 35,210 |
| HK\$ | 2,750 | 1,531 | 23,590 | 13,386 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

33. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (Continued)

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

(i) Market risk (Continued)

Foreign currency risk (Continued)

The sensitivity analysis below has been determined based on the exposure to a 10% (2007:5%) increase and decrease in the functional currencies of respective subsidiaries against the relevant foreign currencies. 10% (2007:5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. As a result of the volatile financial market in 2008, the management adjusted the sensitivity rate from 5% to 10% for the purpose of assessing foreign currency risk. The sensitivity analysis includes outstanding amounts of relevant subsidiaries' foreign currency denominated monetary items and adjusts their translation at the period end for a 10% (2007:5%) change in foreign currency rates. For a 10% (2007:5%) strengthening of functional currencies of respective subsidiaries against the relevant foreign currencies, the profit for the year will be increased. For a 10% (2007:5%) weakening of functional currencies of respective subsidiaries against relevant foreign currencies, there would be an equal and opposite impact on the profit for the year.

| | Impact of USD | | Impact of JPY | | Impact of HK\$ | |
|---------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2008 HK\$'000 | 2007 HK\$'000 | 2008 HK\$'000 | 2007 HK\$'000 | 2008 HK\$'000 | 2007 HK\$'000 |
| Profit for the year | (1,507) | (4,327) | (4,606) | (1,611) | (2,084) | (593) |

(ii) Credit risk

As at 31 December 2008, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the Group reviews the recoverable amount of each individual trade receivable at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

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

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33. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (Continued)

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

(iii) Liquidity risk

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

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

| | Weighted average interest rate % | Within 90 days HK\$'000 | 91-120 days HK\$'000 | 121-180 days HK\$'000 | Total Over 180 days HK\$'000 | Total undiscounted cash flows HK\$'000 | Total carrying amount HK\$'000 |
|--------------------------------|---|-------------------------------|----------------------------|-----------------------------|------------------------------------|---|---|
| 2008 | | | | | | | |
| Trade payables | — | 3,283 | — | — | — | 3,283 | 3,283 |
| Other payables | — | 68,345 | — | — | — | 68,345 | 68,345 |
| Amounts due to a related party | — | 12 | — | — | — | 12 | 12 |
| | | 71,640 | — | — | — | 71,640 | 71,640 |
| 2007 | | | | | | | |
| Trade payables | — | 2,876 | — | — | — | 2,876 | 2,876 |
| Other payables | — | 46,525 | — | — | — | 46,525 | 46,525 |
| Amounts due to a related party | — | 12 | — | — | — | 12 | 12 |
| | | 49,413 | — | — | — | 49,413 | 49,413 |

(c) Capital risk management

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

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

The directors of the Company review the capital structure of the Group on a timely basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. As at 31 December 2008 and 2007, the gearing ratio determined as the proportion of net debt (bank borrowings less cash and cash equivalents) was 0%. The Group expects to maintain this 0% gearing ratio because of its cash-rich position.

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34. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2008 and 2007 are as follows:

| Name of subsidiary | Place of incorporation and operation | Class of capital held | Proportion ownership interest held by the Company | | | | Principal activities |
|---------------------------------|--------------------------------------|-------------------------------------|---|------|-----------------|--------|--|
| | | | Directly 2008 | 2007 | Indirectly 2008 | 2007 | |
| SinoCom BVI | British Virgin Islands | Ordinary shares US\$3,624,502 | 100% | 100% | — | — | Investment holding |
| SinoCom Japan (Note 1) | Japan | Ordinary shares JPY40,000,000 | — | — | 100% | 90.25% | Provision of outsourcing software development services |
| SinoCom Beijing | PRC | Registered capital US\$6,040,800 | — | — | 100% | 100% | Provision of outsourcing software development and technical support services |
| SinoCom Development (Note 2) | British Virgin Islands | Ordinary shares US\$474,671 | — | — | 100% | 89.16% | Investment holding |
| SinoCom Innovative (Note 2) | PRC | Registered capital US\$370,000 | — | — | 100% | 89.16% | Provision of outsourcing software development and technical support services |
| SinoCom-Artm Technology | PRC | Registered capital RMB2,500,000 | — | — | 80% | 80% | Provision of outsourcing software development and technical support services |
| Dalian SinoCom | PRC | Registered capital HK\$3,200,000 | — | — | 85.52% | 85.52% | Provision of outsourcing software development and technical support services |
| Shensoft Shanghai | PRC | Registered capital US\$232,000 | — | — | 100% | 100% | Provision of outsourcing software development and technical support services |
| SinoCom Holdings Japan (Note 3) | Japan | Registered capital JPY10,000,000 | — | — | 100% | — | Provision of outsourcing software development services |
| SinoCom Shensoft | British Virgin Islands | Ordinary shares US\$500,000 | — | — | 100% | 100% | Investment holding |

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

Note 1: In March 2008, the Group acquired the remaining 9.75% of SinoCom Japan as detailed in note 28.

Note 2: In July 2008 and November 2008, the Group acquired the remaining 10.84% of SinoCom Development as detailed in note 28.

Note 3: In April 2008, the Group acquired the entire equity interest in SinoCom Holdings Japan as detailed in note 27.

Note 4: None of the subsidiaries had issued any debt securities at 31 December 2008.

Note 5: The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.