



SinoCom

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

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 0299

● Interim Report 2009

● Unruffled amid
changes

Transform crisis to
opportunity ●

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CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of SinoCom Software Group Limited (the "Company"), I would like to present the unaudited interim results of the Company and its subsidiaries (collectively as the "Group") for the six months ended 30 June 2009 (the "Period").

BUSINESS REVIEW

The world economy was hit by Financial Tsunami to a certain degree. Although the Central Government has launched RMB4,000 billion stimulating plans to boost economy, for those enterprises which major market located in Japan like SinoCom cannot benefit from it directly. Economic slump in Japan has brought to shrinking business development of information technology, which also affected the software outsourcing service at the same time. Nevertheless, the Company's turnover in the first half year maintained approximately the same as the corresponding period of last year. Performance achieved under this environment proved the Group's advantageous position in the industry.

During the Period, to avoid client loss brought about by Financial Tsunami, the Company focused its human resources to maintain a cohesive relationship with existing clients without significant expansion in its client base. Such business strategy enable the Group to uphold a stable operating environment in the midst of economic adversity.

FUTURE PROSPECTS

The impact brought by Financial Tsunami to global economy is massive yet temporary. The rescue measures launched by the joined efforts of governments from various countries already took effect in the beginning of second half of this year. We believed that the worst moment has passed and the momentum brought by economic recovery is expected to be reflected on the Company's sales performance gradually. Japan's newly announced economic indicators including the Conference Board Leading Economic Index and the Coincident Economic Index rose continuously for a few months which indicated that the country's economy has stopped deteriorating. Japanese Central Bank expected the economy will start to recover in the second half of 2009 and will maintain steady in the medium to long run. It is encouraging to SinoCom which has its major market located in Japan.

The Company's business on providing man power to clients on a yearly basis remained stable. However, clients tend to require more service on middle-stream and upstream businesses, the Company will therefore increase its resources on staff training, and make appropriate adjustment on employee structure to cope with latest business development.

In addition, the Company will improve and integrate internal resources to approach potential clients for securing new cooperative plans during the year. Development of domestic software outsourcing service is always one of the Company's targets. After dedicated effort for a substantial period, the Group has attained system integrator qualification in the Mainland China. This provides a good pre-requisite to start up its domestic software service business there.

Despite this uncommon global economy crisis has brought certain challenges to the Company's business, I believe that SinoCom is able to turn crisis into opportunities with its solid development foundation and remarkable operating track records in the industry, Such economic low tide moment is a good occasion for our business development to start a new page.

By order of the Board

Wang Zhiqiang

Chairman

Hong Kong, 26 August 2009

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS FOR THE PERIOD

Turnover

Adverse impact of the recent Financial Tsunami was less severely than anticipated. The worst time has been elapsed. Turnover of the Group for the six months ended 30 June 2009 amounted to approximately HK\$324 million, representing a decrease of approximately 1% and 2%, over the first and second half year in 2008 respectively. Revenue was derived from outsourcing software development services and from technical support services, which accounted for approximately 96% and 4% of the total revenue respectively. Revenue from these two service types dropped at 1% and 6% respectively from the same period last year. Geographical market was divided into Japan and the People's Republic of China ("PRC") and each accounted for approximately 92% and 8% respectively. Decreased revenue from outsourcing software development services was mainly due to shrinking new projects in securities trading systems. Nevertheless, the Group was able to maintain stable and recurring revenue under its overseas development centre ("ODC") business model under which supports maintenance and upgrade of running systems. There were also new start up projects in the finance and insurance sectors, small in scale at its inception stage though but compensated partially the decrease in securities trading systems projects. This compensation together with the stable ODC revenue explained the slight decrease in revenue as a whole. Top five customers accounted for approximately 77% of the total revenue. There was no change in the top two customers ranking from same period 2008 that they accounted for approximately 67% of the total revenue in aggregate.

Gross Profit and Cost of Services

Gross profit of the Group for the Period amounted to approximately HK\$94 million, representing approximately a decrease of 14% and an increase of 1% over the first and second half year in 2008 respectively. Decrease in comparison with first half 2008 was due to sub-optimal utilization rate and higher per head cost of the Group's human resources. There was improvement during the Period and hence the increase in gross profit over second half 2008. Gross profit margin was approximately 29% which was less than the 33% achieved same period last year but better than the 28% recorded in second half 2008.

Cost of services increased to approximately HK\$230 million, representing an increase of approximately HK\$12 million or 6%. Major costs comprised labour costs, rent, travelling, and sub-contracting out, in particular, sub-contracting out by the Group's subsidiary in Japan locally to mitigate rapid headcount expansion pressure. Among which, labour costs and sub-contracting fee increased by approximately HK\$7.7 million and HK\$4.8 million respectively. Average manufacturing headcounts during the Period was 2,574, a decrease of 15% over that of 3,022 in same period last year. Average labour cost per head for an amount of approximately HK\$69,500 during the Period, comprising salary, bonus, insurance, and welfare, increased by approximately 23% above that of same period last year. Increase on per head basis was due to the overall total labour costs increment of approximately 5% and also the reduced headcount denominator in calculating average cost.

Other Income

Other income included interest income and government subsidies of approximately HK\$5 million each respectively for the Period. Government subsidies were mainly training subsidies under new policies launched to encourage outsourcing software development services industry in PRC.

Exchange Gain/Loss

The Group suffered an exchange loss of approximately HK\$6.6 million during the Period, where there was a gain of approximately HK\$4 million in the same period last year.

Operating Expenses Before Exchange Gain/Loss

Operating expenses before exchange gain/loss during the Period amounted to approximately HK\$37 million, remained close to the same period level in 2008. It was the management's effort to control operating expenses under an inflationary environment.

Income Tax Expenses

During the Period, income tax expenses for all subsidiaries in PRC other than those enjoying tax holidays were provided at 25%. The principal subsidiary in Beijing will be entitled to a more favorable income tax rate at 10% when it is recognized as a key software enterprise under the State plan. That principal subsidiary was recognized as such consecutively in the past few years. Potential tax expenses reduction at a lower tax rate during the Period will be approximately HK\$7.8 million once that principal subsidiary gets the qualification in the second half year in 2009.

Liquidity, Financial Resources and Gearing Ratio

Net assets

As at 30 June 2009, the Group recorded total assets of approximately HK\$693 million which were financed by liabilities of HK\$164 million, minority interest of HK\$3 million and equity of HK\$526 million. The Group's net assets value as at 30 June 2009 decreased by 12% to approximately HK\$529 million as compared to approximately HK\$603 million as at 31 December 2008.

Liquidity

The Group had a total cash and bank balances of approximately HK\$534 million as at 30 June 2009 (As at 31 December 2008: approximately HK\$539 million). The Group did not have any bank borrowings. Current ratio was 4.3 times as at 30 June 2009 (As at 31 December 2008: 6.3 times).

Foreign exchange exposure

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

Pledge of Asset

As at 30 June 2009, the Group did not pledge any of its assets to obtain banking facilities nor have any charge on its assets (As at 31 December 2008: Nil).

Contingent Liabilities

As at 30 June 2009, the Group did not have any material contingent liabilities. (As at 31 December 2008: Nil).

OUTLOOK

The worst moment of the recent Financial Tsunami has been lapsed as to the Group's software development outsourcing business from Japan, the market will take time to recover from its bottom though. Growth will be picked up gradually at a pace according to economic environment and factors peculiar to different sectors of the finance industry. Business with one of the Group's major customers decreased as a result of the recent recession of the finance industry in Japan. The Group's focus and expertise rests on this vertical market segment and inevitably will be affected. On the other hand, the Group got a new customer on a fast growing track. New stars will be projects from the insurance industry in Japan under its current reform. Projects are being rolled out at small scale at inception stage. The Group already secured new business opportunities for these projects. There is a trend that requirement from customers shifted from mid-low end moving upstream as a cost saving measure because of the wider gap in outsourcing charging rates applicable to senior engineers in Japan and in PRC. As long as the Group is capable to recruit more experienced engineers, the Group will be able to capture this business opportunities. Accordingly, the Group is recruiting senior engineers as part of its reorganization in human resources pool. In the short term, average cost per head will increase. In the longer term, the Group will equip itself ready for sophisticated projects from top to bottom further strengthening its competitive edge and hence at a better bargaining position for charge rates. The Group will adjust its scale organically in accordance with the coming business volume trend. New growth in PRC or in other markets by means of merger and acquisition will be subject to uncertainties as to availability of suitable targets and the timing of completion. Nevertheless, the Group continues to keep a close eye on any acquisition opportunities on sizeable companies.

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2009, total headcount of the Group reached 2,526 breaking down into 2,271 in China and 255 in Japan. Employees are remunerated based on their performance, work experience and the prevailing market rates. Performance related bonuses are granted on a discretionary basis. Other employee benefits include pension fund, insurance and medical coverage, training programs and participation in the Group's share option scheme.

SHARE OPTION SCHEME

As at 30 June 2009, there were options for 4,143,000 ordinary shares of HK\$0.025 each in the share capital of the Company (the "Share(s)") granted by the Company pursuant to the option scheme, as adopted by the shareholders of the Company on 2 April 2004 (the "Option Scheme"), which were valid and outstanding. No options were lapsed during the six months ended 30 June 2009.

AUDIT COMMITTEE

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

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance. During the accounting period ended 30 June 2009, the Company had met the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules") except A.2.1 that Mr Wang Zhiqiang had been both the Chairman and Chief Executive Officer of the Company. The roles of the Chairman of the Board and the Chief Executive Officer were not separated because, to our belief, the separation might not enhance the Group's efficiency and business operation. The balance of power and authority is ensured by regular discussion and meetings of the Board and active participation of independent non-executive directors. The Board continues to review its practices from time to time with an aim to improve the Group's corporate governance practices so as to meet international best practice.

COMPLIANCE WITH THE MODEL CODE SET OUT IN APPENDIX 10 TO THE LISTING RULES

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

DIRECTORS' INTEREST IN SHARES

As at 30 June 2009, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance "SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) of which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

Ordinary shares of HK\$0.025 each

(a) *Interests in the Company*

Name of Director	Capacity/Nature of interest	No. of shares of the Company	Notes	Approximate percentage of shareholding
Mr Wang Xubing	Interest of a controlled corporation	563,000,000 (L)	1	50.52%
Mr Wang Zhiqiang	Interest of a controlled corporation	563,000,000 (L)	2	50.52%
Dr Shi Chongming	Beneficial owner	4,043,200 (L)		0.36%
Mr Siu Kwok Leung	Beneficial owner	4,280,000 (L)		0.38%

Notes:

1. These shares are beneficially owned by China Way International Limited ("China Way"). By virtue of his 51% shareholding interest in China Way, Mr Wang Xubing is deemed or taken to be interested in the 563,000,000 shares of the Company owned by China Way for the purpose of the SFO.
2. These shares are beneficially owned by China Way. By virtue of his 49% shareholding interest in China Way, Mr Wang Zhiqiang is deemed or taken to be interested in the 563,000,000 shares of the Company owned by China Way for the purpose of the SFO.

(The Letter "L" denotes a long position in shares.)

(b) Interests in associated corporation of the Company

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

(The letter "L" denotes a long position in shares.)

Save as disclosed herein, as at 30 June 2009, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

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

As at 30 June 2009, details of substantial shareholders' and other persons' (who are required to disclose their interests pursuant to Part XV of the SFO) interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO are as follows:

(a) *Interests in Shares*

Name of shareholder	Capacity/Nature of interest	No. of shares of the Company	Notes	Approximate percentage of shareholding
China Way	Beneficial owner	563,000,000 (L)		50.52%
Wang Xubing	Interest of a controlled corporation	563,000,000 (L)		50.52%
Wang Zhiqiang	Interest of a controlled corporation	563,000,000 (L)		50.52%
Madam Zhang Yue	Interest of spouse	563,000,000 (L)	1	50.52%
Madam Yuan Yue Ling	Interest of spouse	563,000,000 (L)	2	50.52%
FMR LLC	Beneficial owner	78,706,000 (L)		7.06%

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.

(The letter "L" denotes a long position in shares.)

(b) *Short Position in Shares and Underlying Shares*

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2009

		Six months ended 30 June	
	NOTES	2009 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)
Revenue		324,285	327,005
Cost of services		(230,374)	(218,125)
Gross profit		93,911	108,880
Administrative expenses		(43,596)	(36,910)
Share of (loss) profit of an associate		(48)	38
Other gains		10,624	13,089
Discount on acquisition of additional equity interests in a subsidiary	15	—	323
Profit before taxation		60,891	85,420
Taxation	4	(21,464)	(24,679)
Profit for the period	5	39,427	60,741
Other comprehensive income			
Exchange differences arising on translation from functional currency to presentation currency		(3,833)	30,025
Total comprehensive income for the period		35,594	90,766
Profit attributable to:			
Owners of the Company		39,372	60,266
Minority interests		55	475
		39,427	60,741
Total comprehensive income attributable to:			
Owners of the Company		35,539	89,881
Minority interests		55	885
		35,594	90,766
Earnings per share	7		
— Basic		HK3.54 cents	HK5.42 cents
— Diluted		HK3.53 cents	HK5.36 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2009

	NOTES	30 June 2009 HK\$'000 (unaudited)	31 December 2008 HK\$'000 (audited)
Non-current assets			
Plant and equipment	8	15,129	17,919
Goodwill		9,068	9,064
Interest in an associate		2,113	1,894
Other deposits		4,557	5,724
		30,867	34,601
Current assets			
Trade and other receivables	9	127,736	147,753
Amount due from an associate	11	203	141
Bank balances and cash		534,107	538,545
		662,046	686,439
Current liabilities			
Trade and other payables	10	135,063	80,346
Amount due to a shareholder	11	12	12
Tax liabilities		18,676	29,198
		153,751	109,556
Net current assets		508,295	576,883
Total Assets less Current Liabilities		539,162	611,484
Capital and reserves			
Share capital	12	27,859	27,826
Reserves		498,299	572,149
Equity attributable to owners of the Company		526,158	599,975
Minority interests		3,307	3,252
Total equity		529,465	603,227
Non-current liabilities			
Deferred tax liabilities		9,697	8,257
		539,162	611,484

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2009

	Attributable to owners of the Company												
	Share capital HK\$'000	Share premium HK\$'000	Share redemption reserve HK\$'000	Capital reserve HK\$'000 (Note 1)	Other reserve HK\$'000 (Note 2)	General reserve fund HK\$'000 (Note 3)	Shareholder's contribution HK\$'000 (Note 4)	Translation reserve HK\$'000	Share option reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
Balance at 1 January 2008 (audited)	27,718	152,464	—	10,657	5,078	24,906	2,726	35,216	16,140	225,605	500,510	5,226	505,736
Exchange differences arising on translation from functional currency to presentation currency	—	—	—	—	—	—	—	29,615	—	—	29,615	410	30,025
Profit for the period	—	—	—	—	—	—	—	—	—	60,266	60,266	475	60,741
Total comprehensive income for the period	—	—	—	—	—	—	—	29,615	—	60,266	89,881	885	90,766
Acquisition of additional equity interest in a subsidiary	—	—	—	—	—	—	—	—	—	—	—	(1,863)	(1,863)
Exercise of share options	343	10,531	—	—	—	—	—	(2,284)	—	—	8,590	—	8,590
Recognition of equity-settled share based payments expenses	—	—	—	—	—	—	—	2,771	—	2,771	—	—	2,771
Repurchase and cancellation of shares	(50)	(289)	339	—	—	—	—	—	—	(2,620)	(2,620)	—	(2,620)
Transfer	—	—	—	—	—	219	—	—	—	(219)	—	—	—
Dividends recognised as distribution	—	—	—	—	—	—	—	—	—	(62,838)	(62,838)	—	(62,838)
Balance at 30 June 2008 (unaudited)	28,011	162,706	339	10,657	5,078	25,125	2,726	64,831	16,627	220,194	536,294	4,248	540,542
Balance at 1 January 2009 (audited)	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
Exchange differences arising on translation from functional currency to presentation currency	—	—	—	—	—	—	—	(3,833)	—	—	(3,833)	—	(3,833)
Profit for the period	—	—	—	—	—	—	—	—	—	39,372	39,372	55	39,427
Total comprehensive income for the period	—	—	—	—	—	—	—	(3,833)	—	39,372	35,539	55	35,594
Exercise of share options	33	996	—	—	—	—	—	—	(216)	—	813	—	813
Recognition of equity-settled share based payments expenses	—	—	—	—	—	—	—	1,266	—	1,266	—	—	1,266
Dividends recognised as distribution	—	—	—	—	—	—	—	—	—	(111,435)	(111,435)	—	(111,435)
Balance at 30 June 2009 (unaudited)	27,859	162,713	1,623	10,657	5,078	25,829	2,726	60,867	19,528	209,278	526,158	3,307	529,465

- 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 their net profits to the general reserve funds until the funds aggregate to 50% of their registered capital. In accordance with their articles of association, PRC subsidiaries of the Company may transfer such amount of profits (after taxation) as determined by their board of directors to the general reserve fund before distribution to their shareholders. The general reserve fund is non-distributable and can be used to increase the capital of the PRC subsidiaries. The general reserve fund can also be used to make good future losses.
- Note 4:* The shareholder's contribution of the Group represents waiver of amount due to a shareholder of the Company in 2001.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2009

	NOTES	Six months ended 30 June	
		2009 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)
Net cash from operating activities		56,225	61,313
Net cash used in investing activities:			
Purchase of plant and equipment		(1,067)	(3,430)
Settlement of consideration in relation to acquisition of additional interest in a subsidiary in prior year		(884)	(1,080)
Proceeds from disposal of plant and equipment		19	46
Acquisition of additional interests in a subsidiary	15	—	(1,540)
Acquisition of a subsidiary	14	—	(709)
		(1,932)	(6,713)
Net cash used in financing activities:			
Dividend paid		(55,116)	(62,838)
Proceeds from issue of shares		813	8,377
Repurchase and cancellation of shares		—	(2,620)
		(54,303)	(57,081)
Net decrease in cash and cash equivalents		(10)	(2,481)
Cash and cash equivalents at beginning of the period		538,545	444,607
Effects of foreign exchange rate change		(4,428)	26,916
Cash and cash equivalents at end of the period, represented by bank balances and cash		534,107	469,042

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2009

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2008.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on 1 January 2009.

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK (IFRIC) — Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK (IFRIC) — Int 13	Customer Loyalty Programmes

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

HK (IFRIC) — Int 15	Agreements for the Construction of Real Estate
HK (IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

HKAS 1 (Revised 2007) has introduced a number of terminology changes, including revised titles for the condensed consolidated financial statements, and has resulted in a number of changes in presentation and disclosure. HKFRS 8 is a disclosure Standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor Standard, HKAS 14 Segment Reporting, required the identification of two sets of segments (business and geographical) using a risks and returns approach. In the past, segment information reported externally was analysed on the basis of the location of customers. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14 (see note 3) nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss. The adoption of the new and revised HKFRSs has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

3. SEGMENT INFORMATION

In prior years, segment information reported externally was analysed on the basis of the location of customers. The same basis was also applied to information to the chief operating decision maker, which is the Group's Chief Executive Officer for the purposes of resources allocation and assessment of performance. The Group's reportable segments under HKFRS 8 are therefore the same as prior years.

3. SEGMENT INFORMATION (Continued)

The following is an analysis of the Group's revenue and results by operating segment for the periods under review:

	Six months ended 30 June 2009		
	PRC HK\$'000	Japan HK\$'000	Consolidated HK\$'000
Revenue	25,561	298,724	324,285
Cost of services	(23,408)	(206,966)	(230,374)
Gross profit	2,153	91,758	93,911
Administrative expenses	(1,055)	(32,815)	(33,870)
Other gains	690	4,323	5,013
Segment profit	1,788	63,266	65,054
Share of loss of an associate	(48)	—	(48)
Unallocated other income			5,611
Unallocated corporate expenses			(9,726)
Profit before taxation			60,891

	Six months ended 30 June 2008		
	PRC HK\$'000	Japan HK\$'000	Consolidated HK\$'000
Revenue	37,093	289,912	327,005
Cost of services	(29,083)	(189,042)	(218,125)
Gross profit	8,010	100,870	108,880
Administrative expenses	(1,713)	(31,547)	(33,260)
Other gains	344	8,399	8,743
Segment profit	6,641	77,722	84,363
Share of profit of an associate	38	—	38
Discount on additional equity interest in a subsidiary	—	323	323
Unallocated other income			4,346
Unallocated corporate expenses			(3,650)
Profit before taxation			85,420

All of the segment revenue reported above is from external customers.

3. SEGMENT INFORMATION (Continued)

Segment profit represents the profit earned by each segment without allocation of central administration costs and directors' salaries, share of results of associates, investment revenue and finance costs. This is the measure reported to the Group's Chief Executive Officer for the purposes of resource allocation and assessment of segment performance.

4. TAXATION

	Six months ended 30 June	
	2009 HK\$'000	2008 HK\$'000
Current tax		
PRC enterprise income tax	13,318	21,065
Japan income tax	6,641	3,614
	19,959	24,679
Deferred tax		
Current period	1,505	—
	21,464	24,679

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 a reduced income tax rate of 10% as compared to the unified tax rate of 25% for the year ended 31 December 2008.

SinoCom Beijing is required to perform the re-verification process to maintain the key software enterprise status for the year ending 31 December 2009. Accordingly, for the six-month period ended 30 June 2009, SinoCom Beijing is subject to the unified tax rate of 25% before the re-verification process completes.

4. TAXATION (Continued)

Shensoff Computer Technology (Shanghai) Company Limited ("Shensoff Shanghai") is 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.

Shensoff Shanghai is entitled to the tax holidays and concessions from 2006.

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

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\$645,000, six months ended 30 June 2008: HK\$686,000) 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\$323,000, six months ended 30 June 2008: HK\$343,000), 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, six months ended 30 June 2008: HK\$6,000) to JPY200,000 (equivalent to approximately HK\$16,000, six months ended 30 June 2008: HK\$17,000), depending on the headcount and capital of the entities.

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 condensed consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries.

5. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging (crediting) the following items:

	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
Depreciation of plant and equipment	3,662	3,272
Loss on disposal of plant and equipment	143	44
Operating lease rentals in respect of premises	20,675	20,929
Share-based payments expense	1,266	2,771
Net foreign exchange loss (gain)	6,578	(3,989)
Interest income	(5,308)	(3,755)
Government subsidies	(5,013)	(3,060)

6. DIVIDEND

In respect of the financial year ended 31 December 2008, a final dividend of HK6.00 cents per share and a special dividend of HK4.00 cents per share (total dividend HK\$111,435,000) were declared on 1 April 2009. In May and June 2009, the dividend of HK\$55,116,000 were paid to the shareholders with HK\$56,319,000 remaining as dividend payable.

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

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

7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2009 HK\$'000	2008 HK\$'000
Earnings		
Profit for the period attributable to owners of the Company	39,372	60,266

	Six months ended 30 June	
	2009 '000	2008 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,113,518	1,112,128
Effect of dilutive potential ordinary shares: Share options issued by the Company	1,032	11,590
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,114,550	1,123,718

8. MOVEMENTS IN PLANT AND EQUIPMENT

During the period, the Group disposed of certain plant and equipment with a carrying amount of HK\$162,000 (six months ended 30 June 2008: HK\$90,000) for proceeds of HK\$19,000 (six months ended 30 June 2008: HK\$46,000), resulting in a loss on disposal of HK\$143,000 (six months ended 30 June 2008: HK\$44,000). In addition, the Group spent HK\$1,067,000 (six months ended 30 June 2008: HK\$4,021,000) on additions to plant and equipment.

9. TRADE AND OTHER RECEIVABLES

	30 June 2009 HK\$'000	31 December 2008 HK\$'000
Trade receivables	90,501	103,963
Other debtors	29,536	30,989
Other deposits	5,018	5,056
Prepayments	2,681	7,745
Total trade and other receivables	127,736	147,753

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

	30 June 2009 HK\$'000	31 December 2008 HK\$'000
0–30 days	87,395	97,689
31–60 days	2,042	4,823
61–90 days	759	739
91–180 days	305	120
Over 180 days	—	592
	90,501	103,963

9. TRADE AND OTHER RECEIVABLES (Continued)

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

	30 June 2009 HK\$'000	31 December 2008 HK\$'000
61-90 days	468	547
91-180 days	—	120
Over 180 days	—	592
	468	1,259

10. TRADE AND OTHER PAYABLES

	30 June 2009 HK\$'000	31 December 2008 HK\$'000
Trade payables	5,634	3,283
Dividend payable	56,319	—
Wages and salaries payable	56,379	62,812
Accruals	2,239	1,770
Other tax payables	11,451	6,948
Payable for outstanding consideration for acquisition of additional equity interest in a subsidiary	196	1,080
Other payables	2,845	4,453
	135,063	80,346

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

10. TRADE AND OTHER PAYABLES (Continued)

The following is an aged analysis of trade payables at the end of respective reporting periods based on invoice date:

	30 June 2009 HK\$'000	31 December 2008 HK\$'000
0-30 days	3,821	2,382
31-60 days	1,813	901
	5,634	3,283

11. AMOUNTS DUE FROM/TO RELATED PARTIES

	30 June 2009 HK\$'000	31 December 2008 HK\$'000
Amount due from an associate	203	141
Amount due to a shareholder	12	12

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

12. SHARE CAPITAL

	Number of shares '000	HK\$'000
Authorised:		
Ordinary shares of HK\$0.025 each, at 1 January 2008, 31 December 2008 and 30 June 2009	4,000,000	100,000
Issued and fully paid:		
At 1 January 2008	1,108,719	27,718
Exercise of share options (<i>Note i</i>)	13,884	347
Repurchase and cancellation of shares (<i>Note ii</i>)	(9,552)	(239)
At 31 December 2008	1,113,051	27,826
Exercise of share options (<i>Note iii</i>)	1,300	33
At 30 June 2009	1,114,351	27,859

Notes:

- (i) 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.
- (ii) During the year ended 31 December 2008, the Company repurchased 9,552,000 ordinary shares through The Stock Exchange of Hong Kong Limited at an aggregated consideration of HK\$11,088,000. The shares were subsequently cancelled.
- (iii) During the six months ended 30 June 2009, share options to subscribe for 1,300,000 ordinary shares of HK\$0.025 each were exercised at HK\$0.625 per share.

13. SHARE-BASED PAYMENTS

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

Details of specific category of options are as follows:

Date of grant	Vesting period	Exercise price
10/11/2004	10/11/2004-09/05/2008	HK\$0.625
24/01/2006	24/01/2006-23/01/2010	HK\$1.3875
15/01/2007 (Note)	15/01/2007-14/01/2011	HK\$1.73
28/01/2008 (Note)	28/01/2008-27/01/2011	HK\$1.36
28/01/2008	28/01/2008-27/01/2013	HK\$1.36

Details of movements of the share options, all of which were granted to the employees of the Group, during the six months ended 30 June 2009 are as follows:

Date of grant	Outstanding at 1/1/2009	Granted during the period	Exercised during the period	Forfeited during the period	Outstanding at 30/6/2009
10/11/2004	9,420,000	—	(1,300,000)	—	8,120,000
24/01/2006	17,640,000	—	—	(560,000)	17,080,000
28/01/2008	15,490,000	—	—	(460,000)	15,030,000
28/01/2008	1,200,000	—	—	—	1,200,000
	43,750,000	—	(1,300,000)	(1,020,000)	41,430,000

13. SHARE-BASED PAYMENTS (Continued)

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

Date of grant	Outstanding at 1/1/2008	Granted during the period	Granted upon modification during the period (Note)	Cancelled upon modification during the period (Note)	Exercised during the period	Forfeited during the period	Outstanding at 30/6/2008
10/11/2004	23,484,000	—	—	—	(13,744,000)	(180,000)	9,560,000
24/01/2006	18,040,000	—	—	—	—	—	18,040,000
15/01/2007	16,030,000	—	—	(15,750,000)	—	(280,000)	—
28/01/2008	—	—	15,750,000	—	—	(260,000)	15,490,000
28/01/2008	—	1,200,000	—	—	—	—	1,200,000
	57,554,000	1,200,000	15,750,000	(15,750,000)	(13,744,000)	(720,000)	44,290,000

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

13. SHARE-BASED PAYMENTS (Continued)

The directors regarded the new options granted as replacement options for the old options. Accordingly, this has been accounted for as a modification of the old options and the Company has recognised the effects of modification that increase the total fair value of the share-based payment arrangement. Except that an expected life of 5.25 years is used, the assumptions noted above for the calculation of fair value of share options granted on 28 January 2008 are used to measure the fair value of the old and new options using the Black-Scholes pricing model. Fair values of the new and old options are HK\$0.43 and HK\$0.34 per option respectively which were determined at the date of modification. The incremental fair value of HK\$1,151,000 will be expensed over the remaining vesting period.

14. ACQUISITION OF A SUBSIDIARY

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

The net assets acquired in the transaction are as follows:

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

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

15. ACQUISITION OF ADDITIONAL INTERESTS IN A SUBSIDIARY

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, which is established in Japan and principally engaged in provision of outsourcing software development services, from the minority owner of the subsidiary for a cash consideration of JPY19,784,000 (equivalent to approximately HK\$1,540,000). In the opinion of 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 condensed consolidated statement of comprehensive income.

16. OPERATING LEASE COMMITMENTS

At the end of respective reporting periods, the Group had commitments for future minimum lease payments in respect of rented premises which fall due as follows:

	30 June 2009 HK\$'000	31 December 2008 HK\$'000
Within one year	27,190	38,777
In the second to fifth year inclusive	8,957	23,945
	36,147	62,722

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

17. RELATED PARTY TRANSACTIONS AND BALANCES

During the six months ended 30 June 2009, the Group received revenue from outsourcing software development services of nil (six months ended 30 June 2008: HK\$95,000) and from technical support services of HK\$467,000 (six months ended 30 June 2008: HK\$595,000) from an associate. In January 2008, the Group acquired the entire equity interest in SinoCom Holdings Japan for a consideration of JPY9,662,000 (equivalent to approximate HK\$709,000) from a shareholder, further details of which are set out in note 14. In addition, details of balances with related parties at the end of respective reporting periods are set out in the condensed consolidated statement of financial position and note 11.

Compensation of key management personnel

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

	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
Salaries and other benefits	10,189	8,934
Retirement benefits scheme contributions	452	498
Share-based payments	—	156
	10,641	9,588

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

18. EVENTS AFTER THE END OF THE INTERIM PERIOD

In July 2009, SinoCom Beijing entered into an agreement to acquire a 70% further equity interest in an existing associate, DIR System Technology (Beijing) Co., Ltd., which is established in Beijing, PRC and principally engaged in the provision of outsourcing software development services, for a cash consideration of JPY62,850,000 (equivalent to approximately HK\$5,070,000). The acquisition has not yet completed as of the date of the interim financial information.