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

SinoCom

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

OPPORTUNITIES AT HAND

YET CHALLENGES REMAIN

Annual Report
**2009**

# Contents

## 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

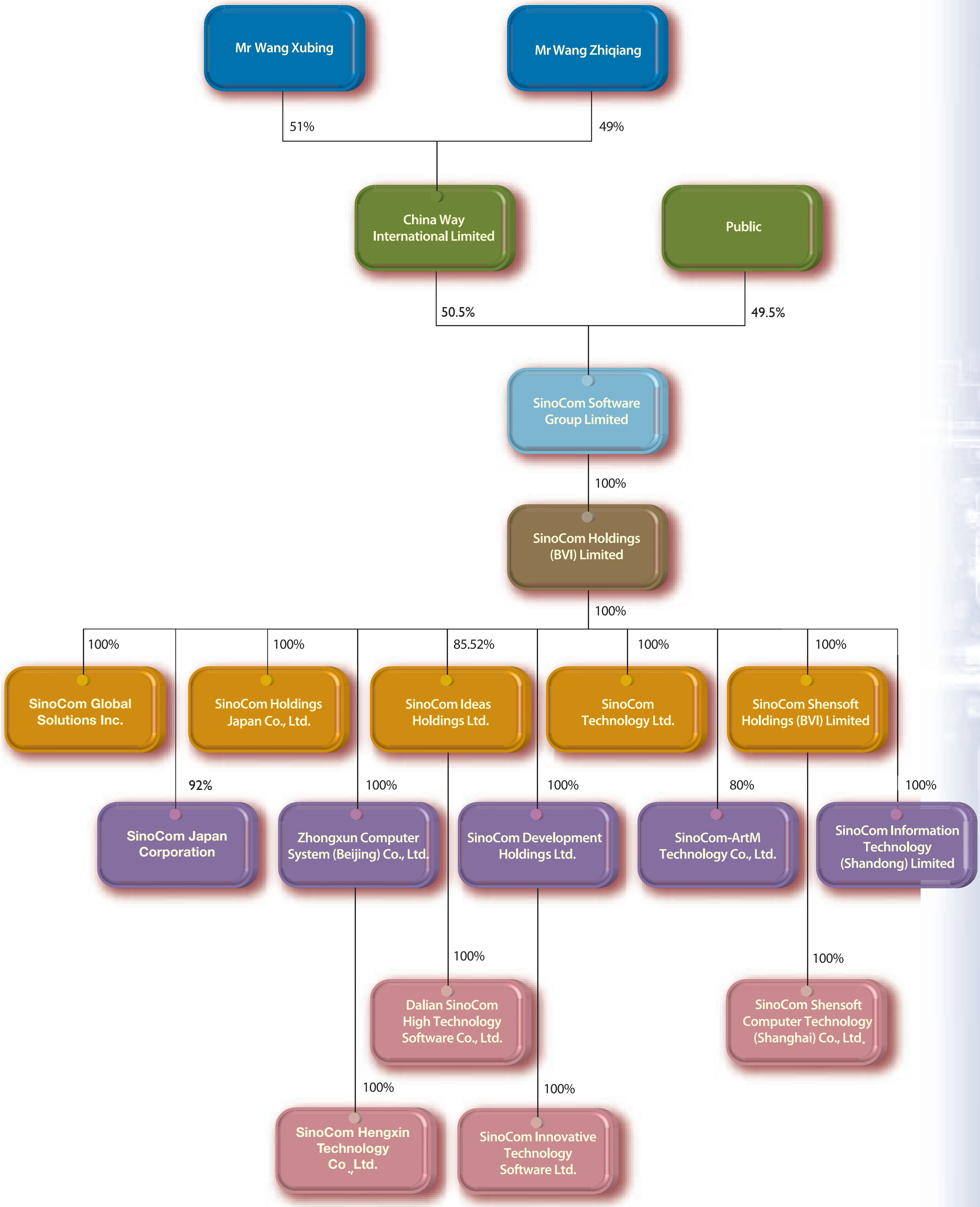
## PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Units 1713–18, 17/F Shui On Centre
6–8 Harbour Road
Wanchai
Hong Kong

## 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


Mr Wang Xubing
Mr Wang Zhiqiang
51%
49%
China Way International Limited
Public
50.5%
49.5%
SinoCom Software Group Limited
100%
SinoCom Holdings (BVI) Limited
100%
100%
100%
85.52%
100%
100%
SinoCom Global Solutions Inc.
SinoCom Holdings Japan Co., Ltd.
SinoCom Ideas Holdings Ltd.
SinoCom Technology Ltd.
SinoCom Shensoft Holdings (BVI) Limited
92%
100%
100%
80%
100%
SinoCom Japan Corporation
Zhongxun Computer System (Beijing) Co., Ltd.
SinoCom Development Holdings Ltd.
SinoCom-ArtM Technology Co., Ltd.
SinoCom Information Technology (Shandong) Limited
100%
100%
Dalian SinoCom High Technology Software Co., Ltd.
SinoCom Shensoft Computer Technology (Shanghai) Co., Ltd.
100%
100%
SinoCom Hengxin Technology Co., Ltd.
SinoCom Innovative Technology Software Ltd.

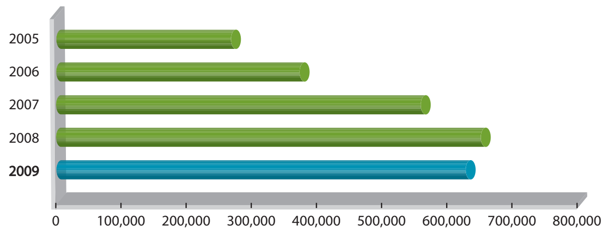
## RESULTS

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2009** | 2008 | 2007 | 2006 | 2005 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **TURNOVER** | **634,470** | 657,831 | 564,507 | 377,433 | 250,657 |
| PROFIT BEFORE TAXATION | **133,447** | 166,891 | 138,491 | 86,105 | 69,617 |
| TAXATION | **(30,109)** | (35,671) | (20,839) | (11,668) | (9,036) |
| PROFIT FOR THE YEAR | **103,338** | 131,220 | 117,652 | 74,437 | 60,581 |
| PROFIT ATTRIBUTABLE TO: | | | | | |
| OWNERS OF THE COMPANY | **103,354** | 130,585 | 115,474 | 73,308 | 60,012 |
| MINORITY INTERESTS | **(16)** | 635 | 2,178 | 1,129 | 569 |
| | **103,338** | 131,220 | 117,652 | 74,437 | 60,581 |
| EARNINGS PER SHARE | | | | | |
| Basic (cents) | **9.28** | 11.73 | 10.48 | 6.73 | 5.59 |
| Diluted (cents) | **9.26** | 11.66 | 10.30 | 6.54 | 5.46 |

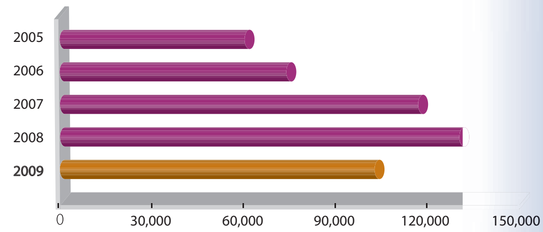
## ASSETS AND LIABILITIES

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2009** | 2008 | 2007 | 2006 | 2005 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| TOTAL ASSETS | **746,392** | 721,040 | 587,727 | 439,176 | 352,978 |
| TOTAL LIABILITIES | **(145,327)** | (117,813) | (81,991) | (46,150) | (33,680) |
| | **601,065** | 603,227 | 505,736 | 393,026 | 319,298 |
| EQUITY ATTRIBUTABLE TO: | | | | | |
| OWNERS OF THE COMPANY | **597,213** | 599,975 | 500,510 | 384,334 | 312,178 |
| MINORITY INTERESTS | **3,852** | 3,252 | 5,226 | 8,692 | 7,120 |
| | **601,065** | 603,227 | 505,736 | 393,026 | 319,298 |

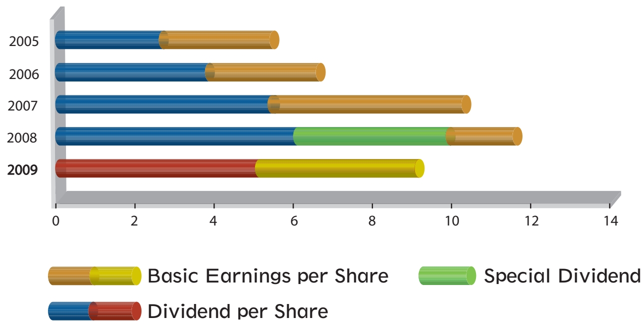
## TURNOVER
(HK$'000)



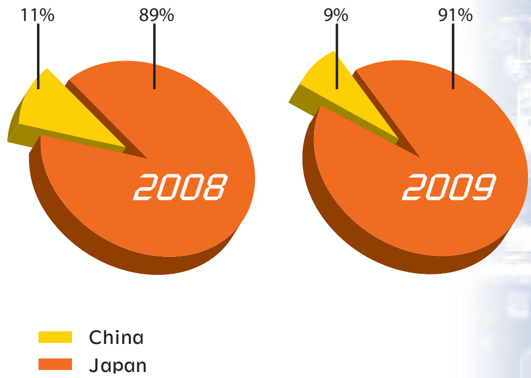

## PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY
(HK$'000)



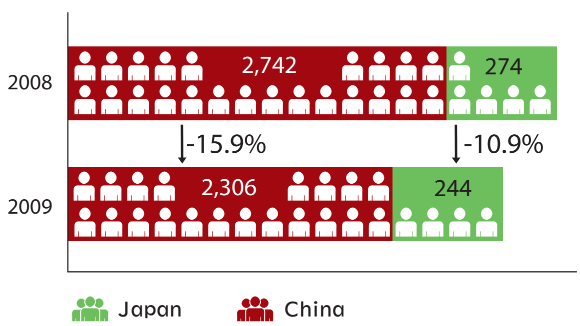

## BASIC EARNINGS PER SHARE & DIVIDEND PER SHARE
(HK cents)



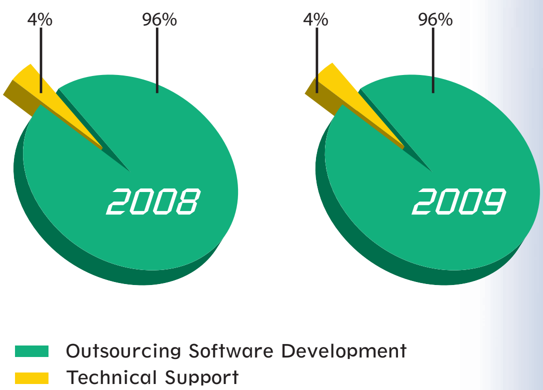

## REVENUES BY COUNTRY




## HEADCOUNTS




## SCOPE OF SERVICES



"Focus on outsourcing software development market in Japan to provide professional services,

The Group's consistent excellent services win customers' appreciation and trust."

**Mr Wang Zhiqiang** Chairman **Mr Wang Xubing** President

## BUSINESS REVIEW

Governments in the world joined hands to turn the tide of the world's economy in 2009. After their vigorous efforts, the economy was stabilised rapidly and showed the sign of recovery in the second half of the year. China's economy yet performed remarkably, and achieved GDP growth target rate for last year of 8% set by the Central Government. The Group's business was inevitably impacted by the financial tsunami to a certain extent. The impact to the business was significant in the first half of year ended 31 December 2009 (the "Year"). However, followed by a relief in global economy situation, business in the second half of the Year improved obviously from the first half. After deducting the exchange rate impact, operating revenue in the second half actually increased by 19% from the first half.

To focus and work wholeheartedly is always the Group's operating principle. After the severe challenges by the financial tsunami, it showed that the Group's strategies are capable of defending itself against the abrupt change in business environment. The Group has always been focusing on its outsourcing software development business, never got involved in business diversification, not to mention the complicated structured financial instruments. This saved the Group from getting involved in the Mainland's financial crisis. This insistence is not easy especially the Group is always sitting on ample amount of cash.

Together with a focus on outsourcing software development market in Japan to provide professional services, the Group's consistent excellent services win customers' appreciation and trust. During this period, big customers reviewed their software outsourcing strategies by placing most of their orders to outsourcing companies that provide quality services that SinoCom is one of their core partners. In the face of economic adversity, SinoCom and its customers worked together to get through the economic downturn and surmount the difficulties.

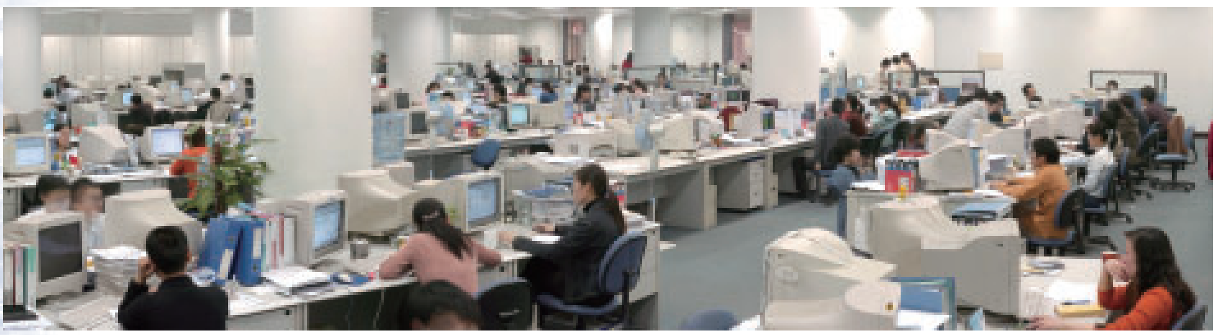
To improve cost efficiency is one of the Group's ongoing objectives. Along with the weakening global economic activites, the pressure of structurally inflated operating cost has been eased. Total cost of this year, after deducting the impact of exchange rate, actually decreased by 5% compared to last year.

## FUTURE PROSPECTS

Looking forward to 2010, the worst period of financial tsunami yet has gone, its impact is still attacking the world's economy, and is likely to continue for a certain period of time. The road ahead is not smooth and the global economy may risk a second trough. Therefore, the Group's business development in the new financial year can be concluded as "***opportunities at hand yet challenges remain***".

Japan continues to be SinoCom's major focus for development of outsourcing software market. The Group's past effort to establish solid base in Japan would be an advantage for further development of Japanese market in the future. The Group will work wholeheartedly for its business strategy, and focus on development of outsourcing software business in Japan. We will also increase the input in high-end projects, which will enhance the Group's comprehensive ability to receive orders and develop a good foundation for the future.

Apart from focusing on outsourcing software market in Japan, the Group is aware that there is a huge market potential for software services in the Mainland, Europe and the US and therefore, is planning to enter these markets. However, this is still on the preliminary stage as it takes a certain period of time to explore and work on.



In the new financial year, inflationary pressure in Mainland is rising. Increasing property price and rental rate will increase operating cost. The Group provides techniques and services through human talents, and will be inevitably affected. Stringent cost control and increase production efficiency will be one of the Group's major tasks.

Outsourcing software industry has been developed for quite a long time in Mainland China, yet it is a flourishing industry. According to IDC's recent forecast and analysis, compound annual growth rate of China's offshore software outsourcing market can reach 35.3% in the five year of 2008-2012. In the past, the objective for outsourcing software development of overseas customers was to reduce cost. Nowadays, it is aimed strategically to increase the core competence and flexibility of a company, so as to increase added value transfer. To cope with the changes, the Group has made corresponding adjustments in employee and business structures. These changes, we believe, can lead SinoCom to a new page.

By Order of the Board
**Wang Zhiqiang**
*Chairman*
Hong Kong, 30 March 2010

## REVIEW OF RESULTS AND OPERATIONS

The Group's consolidated turnover for the Year was approximately HK$634,470,000, representing a decrease of approximately 3.6% when compared to 2008. Turnover derived from outsourcing software development services decreased by approximately 3.2% to approximately HK$608,618,000. The decrease was mainly attributable to the slowdown in business volume of large scale projects. However, business with the Group's two largest customers continued to grow during the Year reflecting the Group's core supplier status to these customers. Top five customers accounted for approximately 76.1% of the total turnover. Provision of technical support services turnover decreased by approximately 11.2% to approximately HK$25,852,000. Business from the Group's international technical support service business partner in China decreased by 7.9% mainly attributable to decrease in revenue from provision of technical support service. During the Year, there was soft demand for outsourcing software development work from multinational companies in PRC as reflected by the turnover of SinoCom-ArtM Technology Co., Ltd., a subsidiary, the customers of which are mainly those multinational companies, dropped by approximately 45.3%. It was not significant though as to contribution of the Group's total revenue where derived mainly of approximately 91.2% from Japan.

There were 2,550 full time staff headcounts as at 31 December 2009, a reduction of 466 or 15% from 3,016 at beginning of the Year. The Group cut its headcount responding to the reduced demand. Among which there were 113 employees used to servicing companies located in PRC. Outsourcing software development services from Japan denominated in Japanese Yen ("JPY") and from PRC denominated in Renminbi ("RMB") actually dropped by approximately 9.9% and 37.6% respectively. Headcount cut was a painful cost control measure. In order to keep the impact to minimum, most of the reduced headcounts were junior engineers that did not affect the Group's core competence.

Gross profit for the Year decreased to approximately HK$191,306,000, or 5.2% decrease, when compared to the gross profit of HK$201,830,000 in 2008. The Group's gross profit margin was approximately 30.2% in 2009 (2008: 30.7%). The Group was able to maintain closely the same gross margin as that of 2008. The Group successfully controlled its manpower cost by cutting headcounts. On the other hand, sub-contracting activities increased when business picked up where the Group's resources became insufficient. Per head cost also increased as a result of annual salary revision and less junior engineers inside the pool after cutting headcounts.

Operating profit and net profit attributable to shareholders in 2009 decreased by approximately 20% and 21.3% to HK$133,447,000 and HK$103,338,000 respectively. Operating margin and net profit margin in 2009 were approximately 21% and 16.3% respectively. The Group successfully controlled its administrative expenses to a similar level of approximately HK$87,399,000, increased by 1.1% over HK$86,444,000 in 2008. The core factor contributing to the decreased operating profit and net profit attributable to shareholders was a significant drop in exchange gain recorded in 2009 of HK$858,000. Corresponding exchange gain in 2008 was HK$29,869,000. Reduced exchange gain of HK$29,011,000 represented 4.6% in operating margin and net profit margin. Effective tax rate was approximately 22.6%. Operations related effective tax rate was actually 18.5%. The remaining 4.1% was withholding tax provision on profits of PRC subsidiaries assuming the Group maintained a 50% payout ratio dividend policy.

## 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

None of the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Year.

At 31 December 2009, the number of shares in respect of which options had been granted and remained outstanding under the Company's share option scheme was 41,070,000 (2008: 43,750,000), representing 3.68% (2008: 3.93%) of the shares of the Company in issue at that date.

## PLEDGE OF ASSETS

As at 31 December 2009, the Group had not pledged any of its assets.

## EMPLOYEES AND REMUNERATION POLICY

The Group had 2,550 full time staff as at 31 December, 2009 (2008: 3,016). Most of them are engineers located in China. There were 244 employees in SinoCom Japan Corporation 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 2009, the Group had no material contingent liabilities.

## CAPITAL COMMITMENTS

As at 31 December 2009, the Group had no material capital commitments.

## EXECUTIVE DIRECTORS

### Mr Wang Zhiqiang

Mr Wang Zhiqiang (王志強), aged 46, 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 more than 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 47, is the president and a founder of the Group. Mr Wang is responsible for the management and business development of the Group. He has more than 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 55, is an executive Director and the managing director of SinoCom Japan Corporation (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 47, 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.

## NON-EXECUTIVE DIRECTOR

### Mr Wang Nengguang

Mr Wang Nengguang (王能光), aged 52, 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 42, earned his Bachelor of Science from Boston University in 1990 and later obtained his Master in IT Education from University of Wollongong and EMBA from Beijing University. 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 its IT committee 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 55, 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 Neng (梁能), aged 58, was appointed as the independent non-executive Director in 2008. He is the Professor of Management and Associate Dean at the China Europe International Business School ("**CEIBS**"). Currently, he is a Senior Fellow at the Wharton School, University of Pennsylvania. 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 University 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 July 2007, Professor Liang has been appointed as an independent director of Foshan Saturday Shoes Co., Ltd., a company which was listed on the Shenzhen Stock Exchange in September, 2009.

The directors have pleasure in presenting their annual report and the audited consolidated financial statements for the year ended 31 December 2009.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries and associate are set out in note 33 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2009 are set out in the consolidated statement of comprehensive income on page 29.

The directors now recommend the payment of a final dividend of HK5.0 cents per share to the shareholders on the register of members on 18 May 2010, amounting approximately to HK$55,855,000 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 14 to the consolidated statement of financial position.

## SHARE CAPITAL AND SHARE BASED PAYMENTS

Details of movements during the year in the share capital and share based payments of the Company are set out in note 23 & 25 respectively to the consolidated statement of financial position.

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

## DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2009, the Company's reserves available for distribution to shareholders was approximately HK$71,927,000, comprising of the contributed surplus of approximately HK$29,412,000 and the retained profit of approximately HK$42,515,000.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for 76.1% of the total sales for the year and sales to the largest customer included therein amounted to 37.0%. Purchases from the Group's five largest suppliers accounted for 65.7% of the total purchases for the year and purchases from the largest supplier included therein amounted to 33.1%.

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.

## 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
Dr Shi Chongming
Mr Siu Kwok Leung

### Non-executive director:

Mr Wang Nengguang

### Independent non-executive directors:

Mr Pang Chor Fu
Prof Liang Neng
Mr Lee Kit Wah

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 2009 or at any time during the year.

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

As at 31 December 2009, 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 | 50.50% |
| Mr Wang Zhiqiang | Interest of a controlled corporation | 563,000,000 (L) | 2 | 50.50% |
| Dr Shi Chongming | Beneficial owner | 4,043,200 (L) | | 0.36% |
| Mr Siu Kwok Leung | Beneficial owner | 4,280,000 (L) | | 0.38% |

Notes:

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

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

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

### (b) Interests in 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.

Save as disclosed above, as at 31 December 2009, 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 2009, 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 2009, 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 | Beneficial owner | 563,000,000(L) | | 50.50% |
| Wang Xubing | Interest of a controlled corporation | 563,000,000(L) | | 50.50% |
| Wang Zhiqiang | Interest of a controlled corporation | 563,000,000(L) | | 50.50% |
| Madam Zhang Yue | Interest of spouse | 563,000,000(L) | 1 | 50.50% |
| Madam Yuan Yue Ling | Interest of spouse | 563,000,000(L) | 2 | 50.50% |
| FMR LLC | Beneficial owner | 78,706,000(L) | | 7.06% |
| Commonwealth Bank of Australia | Beneficial owner | 67,272,000(L) | | 6.03% |
| Karr Robert A. | Beneficial owner | 66,269,159(L) | | 5.94% |

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 2009.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

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

## 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 25 to the consolidated financial statements.

## 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 25 to the consolidated 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 2009.

## CORPORATE GOVERNANCE

During the year ended 31 December 2009, the Company complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules") except (i) A.2.1 that Mr Wang Zhiqiang had been both the Chairman and Chief Executive Officer of the Company and 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 will nevertheless review the structure from time to time and consider the appropriate adjustment should suitable circumstances arise; and (ii) D.1, in relation to three connected transactions entered into with a connected person on 15 June 2009,1 July 2009 and 1 September 2009, respectively with respect to which due to the misunderstanding on the part of Mr Wang Zhiqiang of the reporting requirements applicable to those connected transactions under Chapter 14A of the Listing Rules, the entering into of those connected transactions was not reported to the Board and hence, the Company did not make an announcement in accordance with requirements of Chapter 14 of the Listing Rules at the time. An announcement regarding those connected transactions was issued on 25 March 2010 as soon as the omission was discovered and the facts were ascertained by the Board.

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.

## AUDITORS

Deloitte Touche Tohmatsu have acted as auditors of the Company for the past seven years.

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

On behalf of the Board

**Wang Zhiqiang**
*Chairman*

Hong Kong, 30 March 2010

## 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 as set out in Appendix 14 of the 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, 2008 and 30 June, 2009 respectively; approved acquisitions and disposals of equity interest in subsidiaries of the Group; reviewed and approved the grant of share option; approved connected transaction, 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. During the year under review, the Board held totally more than four board meetings including 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 delegated to meetings among Executive directors. Board meetings among Executive directors only 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.

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

| | Directors' Attendance* |
|---|---|
| **Executive directors** | |
| Mr Wang Zhiqiang (Chairman & CEO) | 3/3 |
| Mr Wang Xubing (President) | 3/3 |
| Dr Shi Chongming | 3/3 |
| Mr Siu Kwok Leung | 3/3 |
| **Non-executive director** | |
| Mr Wang Nengguang | 3/3 |
| **Independent non-executive directors** | |
| Mr Lee Kit Wah | 3/3 |
| Professor Liang Neng | 3/3 |
| Mr Pang Chor Fu | 3/3 |

* 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 three 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 is 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.

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 CEO 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 CEO 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 2009 have been reviewed by the Audit Committee and audited by the external auditors, Messrs. Deloitte Touche Tohmatsu. For the year ended 31 December 2009, the related audit fee was approximately HK$2,299,000 and the non-audit service fee was HK$195,000 (for tax consulting and filing services). The responsibilities of the external auditors with respect to financial reporting are set out in the section of "Independent Auditor's Report".

## SALARY REVIEW COMMITTEE

The Salary Review Committee comprising five members with a majority of INEDs, namely Mr Pang Chor Fu, Professor Liang Neng, 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.

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.

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 Liang Neng | 1/1 |
| Mr Pang Chor Fu | 1/1 |

## 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 INEDs and none of them are members of the former or existing auditors of the Company. 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 2009 have been reviewed by the Audit Committee.

The audit committee held two meetings during the year, which were attended by the external auditors, Messrs 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 | 2/2 |
| Mr Pang Chor Fu | 2/2 |

## 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 2009 and had submitted the results of the review and its recommendations and opinions for consideration by the audit committee and the board.

The Board would like to report the occurrence of the following incident during the year ended 31 December 2009:

中訊計算機系統（北京）有限公司 (Zhongxun Computer System (Beijing) Co., Ltd.) ("**SinoCom Beijing**"), an indirect wholly-owned subsidiary of the Company, entered into three technology development agreements with 北京中訊銳爾科技有限公司 (SinoCom Rier Technology (Beijing) Co., Ltd.,) ("**Beijing Rier**") on 15 June 2009, 1 July 2009 and 1 September 2009, respectively, pursuant to which Beijing Rier engaged SinoCom Beijing to provide software development services (the "**Technology Development Agreements**").

Beijing Rier is held as to 59% by Mr Wang Zhiqiang and as to 41% by three individuals who are independent third parties not connected with the Company. As Mr Wang Zhiqiang is a Director of the Company and has a 49% shareholding in China Way which, in turn, has a 50.5% shareholding in the Company. Mr Wang Zhiqiang and Beijing Rier (being his associate) are both connected persons of the Company under the Listing Rules and the Technology Development Agreements entered into between SinoCom Beijing and Beijing Rier constitute connected transactions of the Company under the Listing Rules. Due to misunderstanding on the part of Mr Wang Zhiqiang of the reporting requirements applicable to the Technology Development Agreements under Chapter 14A of the Listing Rules, the entering into of the Technology Development Agreements was not reported to the Board at the time. An announcement regarding those connected transactions was issued on 25 March 2010 as soon as the omission was discovered and the facts were ascertained by the Board.

## 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 SHAREHOLDRES

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.

Deloitte.
德勤

**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 29 to 86, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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.

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2009 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
30 March 2010

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

| | Notes | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| Revenue | 4 & 5 | **634,470** | 657,831 |
| Cost of services | | **(443,164)** | (456,001) |
| Gross profit | | **191,306** | 201,830 |
| Administrative expenses | | **(87,399)** | (86,444) |
| Share of (loss) profit of an associate | | **(48)** | 1 |
| Other income and gains | 6 | **29,588** | 51,125 |
| Discount on acquisition of additional equity interest in subsidiaries | | **–** | 379 |
| Profit before taxation | | **133,447** | 166,891 |
| Taxation | 8 | **(30,109)** | (35,671) |
| Profit for the year | 9 | **103,338** | 131,220 |
| Other comprehensive income | | | |
| Exchange differences arising on translation from functional currency to presentation currency | | **1,740** | 30,366 |
| Reclassification adjustment on translation difference upon liquidation of subsidiaries | | **–** | (343) |
| Other comprehensive income for the year | | **1,740** | 30,023 |
| Total comprehensive income for the year | | **105,078** | 161,243 |
| Profit attributable to: | | | |
| Owners of the Company | | **103,354** | 130,585 |
| Minority interests | | **(16)** | 635 |
| | | **103,338** | 131,220 |
| Total comprehensive income attributable to: | | | |
| Owners of the Company | | **105,228** | 160,069 |
| Minority interests | | **(150)** | 1,174 |
| | | **105,078** | 161,243 |
| Earnings per share | 13 | | |
| – Basic | | **9.28 cents** | 11.73 cents |
| – Diluted | | **9.26 cents** | 11.66 cents |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

| | Notes | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Plant and equipment | 14 | **13,376** | 17,919 |
| Goodwill | 15 | **9,078** | 9,064 |
| Interest in an associate | 16 | **–** | 1,894 |
| Other deposits | 17 | **2,056** | 5,724 |
| Deferred tax assets | 24 | **2,921** | – |
| | | **27,431** | 34,601 |
| **Current assets** | | | |
| Trade and other receivables | 18 | **121,161** | 147,753 |
| Amounts due from related parties | 19 | **3,975** | 141 |
| Held for trading investments | 20 | **74** | – |
| Bank balances and cash | 21 | **593,751** | 538,545 |
| | | **718,961** | 686,439 |
| **Current liabilities** | | | |
| Trade and other payables | 22 | **85,283** | 80,346 |
| Amount due to a shareholder | 19 | **37,000** | 12 |
| Tax liabilities | | **9,357** | 29,198 |
| | | **131,640** | 109,556 |
| **Net current assets** | | **587,321** | 576,883 |
| | | **614,752** | 611,484 |
| **Capital and reserves** | | | |
| Share capital | 23 | **27,868** | 27,826 |
| Reserves | | **569,345** | 572,149 |
| Equity attributable to owners of the Company | | **597,213** | 599,975 |
| Minority interests | | **3,852** | 3,252 |
| **Total equity** | | **601,065** | 603,227 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 24 | **13,687** | 8,257 |
| | | **614,752** | 611,484 |

The consolidated financial statements on pages 29 to 34 were approved and authorised for issue by the Board of Directors on 30 March 2010 and are signed on its behalf by:

**Wang Zhiqiang**
*DIRECTOR*

**Wang Xubing**
*DIRECTOR*

For the year ended 31 December 2009

| | Attributable to owners of the Company | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Share redemption reserve HK$'000 (Note e) | Capital reserve HK$'000 (Note a) | Other reserve HK$'000 (Note b) | General reserve fund HK$'000 (Note c) | Shareholder's contribution HK$'000 (Note d) | Translation reserve HK$'000 | Share option reserve HK$'000 | Retained earnings HK$'000 | Total HK$'000 | Minority interests HK$'000 | Total equity HK$'000 |
| Balance at 1 January 2008 | 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 | – | – | – | – | – | – | – | 29,827 | – | – | 29,827 | 539 | 30,366 |
| Liquidation of subsidiaries | – | – | – | – | – | – | – | (343) | – | – | (343) | – | (343) |
| Profit for the year | – | – | – | – | – | – | – | – | – | 130,585 | 130,585 | 635 | 131,220 |
| Total comprehensive income for the year | – | – | – | – | – | – | – | 29,484 | – | 130,585 | 160,069 | 1,174 | 161,243 |
| Acquisition of additional equity interest in subsidiaries (note 27) | – | – | – | – | – | – | – | – | – | – | – | (2,776) | (2,776) |
| 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) | – | – | – |
| Dividends paid to minority interests | – | – | – | – | – | – | – | – | – | – | – | (372) | (372) |
| Dividends recognised as distribution (note 12) | – | – | – | – | – | – | – | – | – | (62,838) | (62,838) | – | (62,838) |
| Balance 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 |
| Exchange differences arising on translation from functional currency to presentation currency | – | – | – | – | – | – | – | 1,874 | – | – | 1,874 | (134) | 1,740 |
| Profit for the year | – | – | – | – | – | – | – | – | – | 103,354 | 103,354 | (16) | 103,338 |
| Total comprehensive income for the year | – | – | – | – | – | – | – | 1,874 | – | 103,354 | 105,228 | (150) | 105,078 |
| Disposal of partial interest in a subsidiary (note 28) | – | – | – | – | – | – | – | – | – | – | – | 2,747 | 2,747 |
| Exercise of share options | 42 | 1,272 | – | – | – | – | – | – | (276) | – | 1,038 | – | 1,038 |
| Recognition of equity-settled share based payments expenses | – | – | – | – | – | – | – | – | 2,407 | – | 2,407 | – | 2,407 |
| Transfer | – | – | – | – | – | 677 | – | – | – | (677) | – | – | – |
| Dividends paid to minority interests | – | – | – | – | – | – | – | – | – | – | – | (1,997) | (1,997) |
| Dividends recognised as distribution (note 12) | – | – | – | – | – | – | – | – | – | (111,435) | (111,435) | – | (111,435) |
| Balance at 31 December 2009 | 27,868 | 162,989 | 1,623 | 10,657 | 5,078 | 26,506 | 2,726 | 66,574 | 20,609 | 272,583 | 597,213 | 3,852 | 601,065 |

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

Note e: The Company repurchased 9,552,000 ordinary shares in year 2008 as detailed in note 23. The consideration was paid from the distributable profits of the Company pursuant to the approval of the Board of Directors. A credit of HK$1,623,000 arising from the repurchase of shares was transferred to the share redemption reserve.

For the year ended 31 December 2009

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Profit before taxation | **133,447** | 166,891 |
| Adjustments for: | | |
| Depreciation of plant and equipment | **6,551** | 7,213 |
| Discount on acquisition of additional equity interest in subsidiaries | **–** | (379) |
| Interest income | **(7,713)** | (6,085) |
| Loss on disposal of plant and equipment | **233** | 272 |
| Loss on disposal of partial interest in a subsidiary | **284** | – |
| Release of translation reserve on liquidation of subsidiaries | **–** | (343) |
| Share-based payment expenses | **2,407** | 4,645 |
| Share of loss (profit) of an associate | **48** | (1) |
| Operating cash flows before movements in working capital changes | **135,257** | 172,213 |
| Decrease (increase) in trade and other receivables | **34,253** | (28,815) |
| Increase (decrease) in trade and other payables | **4,084** | (1,206) |
| (Increase) decrease in amount due from related parties | **(3,834)** | 20 |
| Decrease in other deposits | **3,668** | 275 |
| Increase in held for trading investments | **(74)** | – |
| Cash generated from operations | **173,354** | 142,487 |
| Tax paid | **(47,146)** | (12,955) |
| Interest received | **7,713** | 6,085 |
| NET CASH FROM OPERATING ACTIVITIES | **133,921** | 135,617 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

| | Notes | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| INVESTING ACTIVITIES | | | |
| Acquisition of a subsidiary | 26 | **(5,111)** | (709) |
| Purchases of plant and equipment | | **(2,326)** | (4,992) |
| Proceeds from disposal of partial interest in a subsidiary | 28 | **2,463** | – |
| Settlement of consideration in respect of acquisition of additional equity interest in a subsidiary in prior year | | **(884)** | – |
| Proceeds from disposal of plant and equipment | | **104** | 185 |
| Acquisition of additional equity interest in subsidiaries | 27 | **–** | (3,477) |
| Deposit for establishment of a subsidiary | | **–** | (3,431) |
| NET CASH USED IN INVESTING ACTIVITIES | | **(5,754)** | (12,424) |
| FINANCING ACTIVITIES | | | |
| Dividend paid | | **(111,435)** | (62,838) |
| Advance from a shareholder | | **36,988** | – |
| Proceeds from issue of shares upon exercise of share options | | **1,038** | 8,677 |
| Dividend paid to minority shareholders | | **–** | (372) |
| Repurchase and cancellation of shares | | **–** | (11,088) |
| NET CASH USED IN FINANCING ACTIVITIES | | **(73,409)** | (65,621) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | **54,758** | 57,572 |
| CASH AND CASH EQUIVALENTS AT 1 JANUARY | | **538,545** | 444,607 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | | **448** | 36,366 |
| CASH AND CASH EQUIVALENTS AT 31 DECEMBER, REPRESENTED BY BANK BALANCES AND CASH | | **593,751** | 538,545 |

## 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 new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

| | |
|---|---|
| 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 |
| HK (IFRIC) – Int 15 | Agreements for the Construction of Real Estate |
| HK (IFRIC) – Int 16 | Hedges of a Net Investment in a Foreign Operation |
| HK (IFRIC) – Int 18 | Transfers of Assets from Customers |
| 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 |

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

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

HKAS 1 (Revised 2007) has introduced terminology changes, including revised titles for the 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 5) nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

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) | Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008[1] |
| HKFRSs (Amendments) | Improvements to HKFRSs 2009[2] |
| HKAS 24 (Revised) | Related Party Disclosures[5] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[1] |
| HKAS 32 (Amendment) | Classificiation of Rights Issues[4] |
| HKAS 39 (Amendment) | Eligible Hedged Items[1] |
| HKFRS 1 (Revised) | Additional Exemptions for First-time Adopters[3] |
| HKFRS 1 (Amendment) | Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[6] |
| HKFRS 2 (Amendment) | Group Cash-settled Share-based payment Transactions[3] |
| HKFRS 3 (Revised) | Business Combinations[1] |
| HKFRS 9 | Financial Instruments[7] |
| HK (IFRIC) – Int 14 (Amendment) | Prepayments of a Minimum Funding Requirement[5] |
| HK (IFRIC) – Int 17 | Distributions of Non-cash Assets to Owners[1] |
| HK (IFRIC) – Int 19 | Extinguishing Financial Liabilities with Equity Instruments[6] |

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

[1] Effective for annual periods beginning on or after 1 July 2009.

[2] Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.

[3] Effective for annual periods beginning on or after 1 January 2010.

[4] Effective for annual periods beginning on or after 1 February 2010.

[5] Effective for annual periods beginning on or after 1 January 2011.

[6] Effective for annual periods beginning on or after 1 July 2010.

[7] Effective for annual periods beginning on or after 1 January 2013.

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

HKFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. In addition, under HKFRS 9, changes in fair value of equity investments are generally recognised in other comprehensive income, with only dividend income recognised in profit or loss. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

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 consolidated financial statements.

## 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. 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Basis of consolidation (Continued)

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income 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.

### 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.

For acquisition of businesses achieved in stages, the acquiree's identifiable assets and liabilities are recognised at their fair value at the acquisition date when control is achieved. Goodwill is recongised separately for each exchange transactions, based on the cost of each exchange transaction, and the appropriate share of the acquiree's net assets based on net fair values at the time of each exchange transaction.

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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Business combination (Continued)

For decreases in interests in subsidiaries regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the carrying amount of the share of net assets disposed of was recognized in profit or loss.

### 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 statement of financial position.

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 statement of comprehensive income. 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 statement of comprehensive income.

## 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. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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 statement of financial position 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 on initial recognition.

### Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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 the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that 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 end of the reporting period, 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 in other comprehensive income and accumulated in equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

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

### 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 statement of comprehensive income 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 end of the reporting period.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Taxation (Continued)

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. 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period 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, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised to profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

## 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 profit or loss in the period in which the item is derecognised.

### Impairment losses (other than goodwill)

At the end of the reporting period, 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position 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.

#### *Financial assets*

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), 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 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 to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis.

*Financial assets at FVTPL*

Financial assets at FVTPL is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or

- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

***Financial assets (Continued)***

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivable (including trade and other receivables, amounts due from related parties 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 FVTPL, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income, until the financial asset is disposed of or is determined to impaired, at which time, the cumulative gain or loss previously accumulated in equity is reclassified to 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 the end of the reporting period (see accounting policy on impairment loss on financial assets below).

*Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

***Financial assets (Continued)***

*Impairment of financial assets (Continued)*

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.

For financial assets carried at amortised cost, 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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments (Continued)**

***Financial assets (Continued)***

*Impairment of financial assets (Continued)*

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.

***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 (including all fees 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 liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

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 consolidated statement of comprehensive income on the purchase, sale, issue or cancellation of the Company's own equity instruments.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

***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 other comprehensive income 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.

### 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 the end of the reporting period, 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.

## 4. REVENUE

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Outsourcing software development services | **608,618** | 628,736 |
| Technical support services | **25,852** | 29,095 |
| | **634,470** | 657,831 |

Revenue from outsourcing software development services and technical support services are net of business tax and local government levies of HK$31,718,000 (2008: HK$32,245,000).

## 5. SEGMENT INFORMATION

In prior years, segment information reported externally was analysed on the basis of the location in which the customers' headquarters are located. 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.

### Segment revenues and results

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

**Year ended 31 December 2009**

| | PRC HK$'000 | Japan HK$'000 | Total HK$'000 |
|---|---|---|---|
| Revenue | 55,788 | 578,682 | 634,470 |
| Cost of services | (45,103) | (395,849) | (440,952) |
| Gross profit | 10,685 | 182,833 | 193,518 |
| Administrative expenses | (2,276) | (68,868) | (71,144) |
| Segment profits | 8,409 | 113,965 | 122,374 |
| Share of loss of an associate | | | (48) |
| Other gains | | | 29,588 |
| Unallocated corporate expenses | | | (18,467) |
| Profit before taxation | | | 133,447 |

## 5. SEGMENT INFORMATION (Continued)

### Segment revenues and results (Continued)

Year ended 31 December 2008

| | PRC | Japan | Total |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| Revenue | 70,344 | 587,487 | 657,831 |
| Cost of services | (49,590) | (402,140) | (451,730) |
| Gross profit | 20,754 | 185,347 | 206,101 |
| Administrative expenses | (2,982) | (65,928) | (68,910) |
| Segment profits | 17,772 | 119,419 | 137,191 |
| Share of loss of an associate | | | 1 |
| Discount on acquisition of additional equity interest in subsidiaries | | | 379 |
| Other gains | | | 51,125 |
| Unallocated corporate expenses | | | (21,805) |
| Profit before taxation | | | 166,891 |

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales in both years.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3.

Segment profit represents the profit earned by each segment without allocation of share of (loss) profit of an associate, other gains, share-based payment expenses, central administration cost, directors' emoluments and discounts on acquisition of additional equity in subsidiaries. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

## 5. SEGMENT INFORMATION (Continued)

### Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

**At 31 December 2009**

| | **PRC** | **Japan** | **Total** |
|---|---|---|---|
| | **HK$'000** | **HK$'000** | **HK$'000** |
| Segment assets | **452,552** | **203,118** | **655,670** |
| Unallocated assets | | | **90,722** |
| Consolidated total | | | **746,392** |
| Segment liabilities | **15,174** | **66,801** | **81,975** |
| Unallocated liabilities | | | **63,352** |
| Consolidated total | | | **145,327** |

At 31 December 2008

| | PRC | Japan | Total |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| Segment assets | 458,135 | 201,531 | 659,666 |
| Interest in an associate | | | 1,894 |
| Unallocated assets | | | 59,480 |
| Consolidated total | | | 721,040 |
| Segment liabilities | 32,600 | 68,241 | 100,841 |
| Unallocated liabilities | | | 16,972 |
| Consolidated total | | | 117,813 |

## 5. SEGMENT INFORMATION (Continued)

### Segment assets and liabilities (Continued)

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments other than unallocated bank balances and cash, goodwill, deferred tax assets, held-for-trading investments and assets used jointly by reportable segments.

- all liabilities are allocated to reportable segments other than deferred tax liabilities and liabilities for which reportable segments are jointly liable.

### Other segment information

**Year ended 31 December 2009**

Amounts included in the measure of segment profit or segment assets:

| | **PRC** | **Japan** | **Corporate** | **Consolidated** |
|---|---|---|---|---|
| | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** |
| Additions to non-current assets (Note) | **279** | **2,248** | **171** | **2,698** |
| Depreciation | **936** | **5,185** | **430** | **6,551** |
| Loss on disposal of plant and equipment | **25** | **208** | **–** | **233** |

Year ended 31 December 2008

Amounts included in the measure of segment profit or segment assets:

| | PRC | Japan | Corporate | Consolidated |
|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Additions to non-current assets (Note) | 1,219 | 6,119 | 275 | 7,613 |
| Depreciation | 1,132 | 5,684 | 397 | 7,213 |
| Loss on disposal of plant and equipment | 11 | 261 | – | 272 |

Note: Non-current assets excluded goodwill, interest in an associate and deferred tax assets.

## 5. SEGMENT INFORMATION (Continued)

### Geographical information

The Group's operations are located on PRC (country of domicile) and Japan.

The Group's information about its non-current assets by geographical location of the assets is detailed below:

| | Non-current assets | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| PRC (country of domicile) | **23,486** | 29,896 |
| Japan | **1,024** | 2,811 |
| | **24,510** | 32,707 |

Note: Non-current assets excluded deferred tax assets and interest in an associate.

### Information about major customers

Revenues from customers of the corresponding years contributing over 10% of the total revenue of the Group are as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| Customer A[1] | **234,918** | 221,657 |
| Customer B[1] | **173,670** | 196,245 |

[1] Revenue from Japan.

## 6. OTHER INCOME AND GAINS

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Government subsidies | **20,119** | 12,025 |
| Gain on sale of held for trading investments | **315** | 1,413 |
| Interest income | **7,713** | 6,085 |
| Net foreign exchange gain | **858** | 29,869 |
| Others | **583** | 1,733 |
| | **29,588** | 51,125 |

Government subsidies include government concession on levies of HK$10,039,000 (2008: HK$8,804,000), subsidies from local government for the employment of new university graduates of HK$5,491,000 (2008: HK$3,109,000) and for its status as key software enterprise of HK$2,610,000 (2008: nil). There were specific conditions attached to the government subsidies, the Group recognised the government subsidies in the consolidated statement of comprehensive income when it fulfills all the conditions specified in the subsidy notice or relevant law and regulations.

## 7. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Unlisted-equity securities | **7,048** | 7,048 |
| Provision for impairment | **(7,048)** | (7,048) |
| | **–** | – |

The above unlisted investment represents investment in 22% equity interest in Beijing Jbridge Information Technology Co., Ltd ("Beijing Jbridge") which is established in the PRC. Beijing Jbridge is principally engaged in the provision of outsourcing software development services in Japan.

## 7. AVAILABLE-FOR-SALE INVESTMENTS (Continued)

Beijing Jbridge is not regarded as an associate of the Group because the directors of the Company determined that the Group cannot exercise significant influence over Beijing Jbridge in view of the condition that the remaining equity interest of Beijing Jbridge is concentrated among a small group of shareholders who operate Beijing Jbridge without regard to the views of the Company. The investment is measured at cost less impairment at the end of each reporting period 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.

The investment in Beijing Jbridge was fully impaired as the directors of the Company expected no future cash inflows of the investment.

## 8. TAXATION

| | **2009** | 2008 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Current tax: | | |
| PRC Enterprise Income Tax | **18,185** | 16,331 |
| Japan income tax | **9,388** | 11,083 |
| | **27,573** | 27,414 |
| Deferred tax (note 24): | | |
| Current year | **2,536** | 8,257 |
| | **30,109** | 35,671 |

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 was recognised as a key software enterprise under the State plan for 2008 and 2009 by relevant PRC government authorities in January 2009 and January 2010 respectively under the New Law. Accordingly, SinoCom Beijing was 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 and 2009.

## 8. TAXATION (Continued)

SinoCom 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.

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, special local corporate tax and corporate inhabitant tax. Corporate tax is calculated at a progressive statutory rate of 18% (2008: 22%) on the portion of taxable income not exceeding Japanese Yen ("JPY") 8,000,000 (equivalent to approximately HK$670,000, 2008: HK$686,000) and 30% (2008: 30%) on the portion of taxable income in excess of JPY8,000,000. Corporate enterprise tax is calculated at a progressive statutory rate of 2.95% (2008: 5.25%) on the portion of taxable income not exceeding JPY4,000,000 (equivalent to approximately HK$335,000, 2008: HK$343,000), 4.365% (2008:7.665%) on the portion of taxable income in excess of JPY4,000,000 but not exceeding JPY8,000,000 and 5.78% (2008:10.08%) on the portion of taxable income in excess of JPY8,000,000. Special local corporate tax is imposed for fiscal years beginning on or after 1 October 2008. Special local corporate tax is calculated at a fixed tax rate of 81% or 148% of corporate enterprise tax, depending on the amount of paid-in capital. 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, 2008: HK$6,000) to JPY200,000 (equivalent to approximately HK$17,000, 2008: HK$17,000), depending on the headcount and capital of the entities.

## 8. TAXATION (Continued)

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

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Profit before taxation | **133,447** | 166,891 |
| Taxation at the applicable PRC Enterprise Income Tax rate of 25% (2008: 25%) | **33,362** | 41,723 |
| Tax effect of expenses not deductible in determining taxable profit | **6,149** | 3,045 |
| Effect of tax concessions granted to PRC subsidiaries | **(19,726)** | (22,423) |
| Withholding tax on the profits of PRC subsidiaries | **5,440** | 7,159 |
| Effect of different tax rates of subsidiaries operating in other jurisdiction | **4,884** | 6,167 |
| Income tax expenses | **30,109** | 35,671 |

## 9. PROFIT FOR THE YEAR

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

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Auditors' remuneration | **2,611** | 3,029 |
| Depreciation of plant and equipment | **6,551** | 7,213 |
| Loss on disposal of plant and equipment | **233** | 272 |
| Net foreign exchange gain | **(858)** | (29,869) |
| Loss on disposal of partial interest in a subsidiary | **284** | – |
| Staff costs: | | |
| Directors' emoluments (note 10) | **11,643** | 12,719 |
| Other staff costs | | |
| – Salaries and other benefits | **354,264** | 363,405 |
| – Share-based payment expenses | **2,407** | 4,645 |
| – Retirement benefits schemes contributions | **33,316** | 32,208 |
| | **401,630** | 412,977 |

## 10. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the four (2008: 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 |
|---|---|---|---|---|---|
| 2009 | | | | | |
| Salaries and other benefits | **2,043** | **2,043** | **1,229** | **1,901** | **7,216** |
| Retirement benefits scheme contribution | **26** | **26** | **–** | **95** | **147** |
| Bonus (Note) | **1,498** | **1,498** | **428** | **856** | **4,280** |
| Total emoluments | **3,567** | **3,567** | **1,657** | **2,852** | **11,643** |
| 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 |

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 both years.

## 11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2008: four) were directors of the Company whose emoluments are included in the disclosure in note 10 above. The emoluments of the remaining one (2008: one) individual were as follows:

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Salaries and other benefits | **1,156** | 1,135 |
| Share-based payment expenses | **148** | 232 |
| Retirement benefits schemes contributions | **150** | 91 |
| | **1,454** | 1,458 |

## 12. DIVIDENDS

On 23 May 2008, a final dividend of HK5.6 cents per share (total dividend of HK$62,838,000) in respect of the financial year ended 31 December 2007 was paid to the shareholders. In respect of the financial year ended 31 December 2008, a final dividend of HK6.0 cents per share and a special dividend of HK4.0 cents per share (total dividend of HK$111,435,000) were declared on 1 April 2009. All such dividends were paid to the shareholders during the year ended 31 December 2009.

In respect of the financial year ended 31 December 2009, the directors propose a final dividend of HK5.0 cents per share. The dividend is subject to approval by shareholders at the forthcoming Annual General Meeting.

## 13. EARNINGS PER SHARE

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

| | **2009** | 2008 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Earnings | | |
| Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share | **103,354** | 130,585 |

**Number of shares**

| | **2009** | 2008 |
|---|---|---|
| | **'000** | '000 |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **1,113,968** | 1,113,436 |
| Effect of dilutive potential ordinary shares: | | |
| Share options issued by the Company | **1,952** | 6,288 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **1,115,920** | 1,119,724 |

## 14. PLANT AND EQUIPMENT

| | Office equipment HK$'000 | Motor vehicles HK$'000 | Leasehold improvements HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| COST | | | | |
| At 1 January 2008 | 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 |
| Exchange adjustments | (2) | (4) | (4) | (10) |
| Acquisition of a subsidiary | 9 | – | – | 9 |
| Additions | 2,028 | 211 | 87 | 2,326 |
| Disposals | (2,697) | – | (2,352) | (5,049) |
| At 31 December 2009 | 27,154 | 6,595 | 2,835 | 36,584 |
| ACCUMULATED DEPRECIATION | | | | |
| At 1 January 2008 | 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 |
| Exchange adjustments | (11) | (7) | (2) | (20) |
| Provided for the year | 4,064 | 824 | 1,663 | 6,551 |
| Disposals | (2,382) | – | (2,330) | (4,712) |
| At 31 December 2009 | 16,588 | 4,518 | 2,102 | 23,208 |
| CARRYING VALUES | | | | |
| At 31 December 2009 | 10,566 | 2,077 | 733 | 13,376 |
| At 31 December 2008 | 12,899 | 2,687 | 2,333 | 17,919 |

## 14. PLANT AND EQUIPMENT (Continued)

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% |

## 15. GOODWILL

| | HK$'000 |
|---|---|
| Cost | |
| At 1 January 2008 | 8,537 |
| Exchange adjustments | 527 |
| At 31 December 2008 | 9,064 |
| Exchange adjustments | 14 |
| At 31 December 2009 | 9,078 |

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:

| | **2009** | 2008 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Outsourcing software service | | |
| SinoCom-ArtM Technology Limited ("SinoCom-ArtM Technology") | **2,531** | 2,527 |
| SinoCom Shensoft Holdings (BVI) limited ("SinoCom Shensoft") | **6,547** | 6,537 |
| | **9,078** | 9,064 |

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 2009 and 31 December 2008, the directors of the Company determine that there are no impairments of any of its CGUs containing goodwill.

## 15. GOODWILL (Continued)

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% (2008: 18%). Cash flows beyond one-year period are extrapolated using a growth rate of 6% (2008: 12%) for SinoCom-ArtM Technology and 6% (2008: 15%) 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.

## 16. INTEREST IN AN ASSOCIATE

| | 2008<br>HK$'000 |
|---|---|
| Cost of investment in an unlisted associate | 2,072 |
| Share of post-acquisition loss | (178) |
| | 1,894 |

As at 31 December 2008, 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<br>% | Proportion of voting power held<br>% | Principal activity |
|---|---|---|---|---|---|---|
| DIR System Technology (Beijing) Co., Ltd. ("DIR") | Incorporated | PRC | Registered capital | 30 | 30 | Software outsourcing |

In July 2009, SinoCom Beijing acquired a further 70% equity interest in DIR. Following the completion of the acquisition, DIR became a wholly owned subsidiary of SinoCom Beijing. Further details are set out in note 26.

## 16. INTEREST IN AN ASSOCIATE (Continued)

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

| | 2008 |
|---|---|
| | HK$'000 |
| Total assets | 6,537 |
| Total liabilities | (224) |
| Net assets | 6,313 |
| Group's share of net assets of the associate | 1,894 |
| Revenue | 3,008 |
| Profit for the year | 2 |
| Group's share of profit of the associate for the year | 1 |

## 17. OTHER DEPOSITS

Other deposits represent rental deposits paid under operating leases receivable after one year.

## 18. TRADE AND OTHER RECEIVABLES

| | **2009** | 2008 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Trade receivables | **95,843** | 103,963 |
| Other receivables | **13,715** | 30,989 |
| Other deposits | **7,530** | 5,056 |
| Prepayments | **4,073** | 7,745 |
| Total trade and other receivables | **121,161** | 147,753 |

## 18. TRADE AND OTHER RECEIVABLES (Continued)

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 based on invoice dates at the end of the reporting period:

| | **2009** | 2008 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 0-30 days | **83,244** | 97,689 |
| 31-60 days | **11,369** | 4,823 |
| 61-90 days | **567** | 739 |
| 91-180 days | **663** | 120 |
| Over 180 days | **–** | 592 |
| | **95,843** | 103,963 |

The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimize credit risk. Overdue balances are reviewed regularly by senior management. The management considered the recoverability of trade receivables that are neither past due nor impaired is beyond doubt.

Included in the Group's trade receivable balance are debtors with an aggregate carrying amount of HK$1,229,000 (2008: HK$1,259,000) which are past due at the end of the reporting period 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 107 days (2008: 130 days).

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

| | **2009** | 2008 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 61-90 days | **566** | 547 |
| 91-180 days | **663** | 120 |
| Over 180 days | **–** | 592 |
| | **1,229** | 1,259 |

## 18. TRADE AND OTHER RECEIVABLES (Continued)

The Group's trade and other receivables denominated in foreign currencies at the end of the reporting period are as follows:

| | 2009 | 2008 |
|---|---|---|
| | HK$'000 | HK$'000 |
| JPY | 54,910 | 53,981 |
| HK$ | 122 | 3 |

## 19. AMOUNTS WITH RELATED PARTIES

| | 2009 | 2008 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Amount due from an associate | – | 141 |
| Amount due from a related party | 3,975 | – |
| | 3,975 | 141 |
| Amount due to a shareholder | 37,000 | 12 |

The amounts due from an associate and a related party were unsecured, interest-free and recoverable on demand. The related party is a company that is controlled by a director of the Company. The amount due from a related party was expected to realise in the next twelve months from the end of the reporting period and was aged within 30 days at the end of the reporting period based on invoice date. The maximum amount due from a related party outstanding during the year was HK$3,975,000.

The amount due to a shareholder was unsecured, interest-free and repayable on demand. In January 2010, the amount due to a shareholder was fully settled.

## 20. HELD FOR TRADING INVESTMENTS

| | 2009 | 2008 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Equity securities listed in the PRC | 74 | – |

## 21. 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 0.0001% to 4.14% (2008: 0.001% to 4.70%) per annum.

The Group's bank balances and cash denominated in foreign currencies at the end of the reporting period are as follows:

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| United States Dollar ("USD") | **16,148** | 16,312 |
| JPY | **122,633** | 94,355 |
| HK$ | **65,573** | 23,587 |

## 22. TRADE AND OTHER PAYABLES

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Trade payables | **3,890** | 3,283 |
| Wages and salaries payable | **68,110** | 62,812 |
| Accruals | **697** | 1,770 |
| Other tax payables | **7,140** | 6,948 |
| Payable for outstanding consideration for acquisition of additional equity interest in a subsidiary | **196** | 1,080 |
| Other payables | **3,239** | 4,453 |
| Dividend payable to minority shareholder of a subsidiary | **2,011** | – |
| | **85,283** | 80,346 |

The following is an aged analysis of trade payables based on invoice dates at the end of the reporting period:

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| 0-30 days | **2,405** | 2,382 |
| 31-60 days | **1,485** | 901 |
| | **3,890** | 3,283 |

## 22. TRADE AND OTHER PAYABLES (Continued)

The Group's trade and other payables denominated in foreign currency at the end of the reporting period are as follows:

| | **2009** | 2008 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| JPY | **16,150** | 15,064 |
| HK$ | **12,652** | 2,750 |

## 23. SHARE CAPITAL

| | **Number of shares** | |
|---|---|---|
| | '000 | HK$'000 |
| Authorised: | | |
| Ordinary shares of HK$0.025 each, at 1 January 2008, 31 December 2008 and 31 December 2009 | 4,000,000 | 100,000 |
| Issued and fully paid: | | |
| At 1 January 2008 | 1,108,719 | 27,718 |
| Exercise of share options (Note i) | 13,884 | 347 |
| Repurchase and cancellation of shares (Note ii) | (9,552) | (239) |
| At 31 December 2008 | 1,113,051 | 27,826 |
| Exercise of share options (Note iii) | 1,660 | 42 |
| At 31 December 2009 | 1,114,711 | 27,868 |

## 23. SHARE CAPITAL (Continued)

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 (see note 25).

(ii) 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 | Price per share Highest | Lowest | Aggregate consideration paid |
|---|---|---|---|---|
| | '000 | HK$ | HK$ | HK$'000 |
| 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.

(iii) During the year ended 31 December 2009, share options to subscribe for 1,660,000 ordinary shares of HK$0.025 each were exercised at HK$0.625 per share (see note 25).

## 24. DEFERRED TAXATION

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

| | Deferred tax liabilities | | | |
|---|---|---|---|---|
| | Prepaid expenses | Distributable profits of the PRC subsidiaries | Total | Deferred tax assets |
| | HK$'000 | HK$'000 | HK$000 | HK$'000 |
| 1 January 2008 | – | – | – | – |
| Charge to profit and loss for the year | 1,098 | 7,159 | 8,257 | – |
| At 31 December 2008 | 1,098 | 7,159 | 8,257 | – |
| Charge to profit and loss for the year | 15 | 5,440 | 5,455 | 2,919 |
| Exchange differences | (25) | – | (25) | 2 |
| At 31 December 2009 | 1,088 | 12,599 | 13,687 | 2,921 |

## 24. DEFERRED TAXATION (Continued)

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 end of the reporting period.

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 end of the reporting period, 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$7,652,000 (2008: HK$6,269,000). No deferred tax 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.

Under the New law of PRC, accrued expenses are not deductible for tax purposes until the amount is paid. Deferred tax assets have accordingly been recognized in respect of the accrued expenses at the end of the reporting period.

## 25. 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 2009, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 41,070,000 (2008: 43,750,000), representing 3.68% (2008: 3.93%) 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.

## 25. SHARE OPTION SCHEME (Continued)

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.

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 |

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 1/1/2009 | Exercised during year | Forfeited during year | Outstanding at 31/12/2009 |
|---|---|---|---|---|
| 10/11/2004 | 9,420,000 | (1,660,000) | – | 7,760,000 |
| 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 | (1,660,000) | (1,020,000) | 41,070,000 |

## 25. SHARE OPTION SCHEME (Continued)

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 1/1/2008 | 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 | – | – | 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) | (13,884,000) | (1,120,000) | 43,750,000 |

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.

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:

(a) no part of the option may be exercisable prior to and including 10 May 2005, the first semi-anniversary;

(b) 25% of the option will be exercisable at any time after the first semi-anniversary up to and including 9 November 2014;

(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.

## 25. SHARE OPTION SCHEME (Continued)

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.

## 25. 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 2008 to 27 January 2018 (both days inclusive), in the following manner:

(a) no part of the options may be exercisable prior to the first anniversary of the date of grant;

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

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

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

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

(f) the remaining 20% of the options will be exercisable at any time on or after the fifth anniversary of the date of grant up to and including 17 January 2018.

At 31 December 2009, 28,685,000 (2008: 22,112,500) 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 2009 was HK$0.86 (2008: HK$1.50).

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$0.43 per option which was determined at the date of grant using the Black-Scholes pricing model.

## 25. SHARE OPTION SCHEME (Continued)

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$1.3875 | HK$0.625 |
| 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% |

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 the end of each reporting period, 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 profit and loss, 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.

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 of the Company 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, will be expensed over the remaining vesting period.

## 26. 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).

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.

SinoCom Holdings Japan contributed HK$9,205,000 to the Group's profit for the period between the date of acquisition and the end of the reporting period.

If the acquisition had been completed on 1 January 2008, the financial impact on total group's revenue and profit would not be significant.

In July 2009, the Group entered into an agreement with DIR System Technology Co., Ltd to acquire an additional 70% equity interest in DIR for a cash consideration of JPY62,850,000 (equivalent to approximately HK$5,111,000).

## 26. ACQUISITION OF A SUBSIDIARY (Continued)

The net assets acquired in the transaction are as follows:

| | HK$'000 |
|---|---|
| Net assets acquired | |
| Plant and equipment | 9 |
| Trade and other receivables | 7,232 |
| Current liabilities | (197) |
| Less: interest in an associate | (1,933) |
| Total consideration, satisfied by cash | 5,111 |
| Cash outflow arising on acquisition | |
| Cash consideration paid | 5,111 |

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

DIR contributed HK$80,000 to the Group's profit for the period between the date of acquisition and the end of the reporting period.

If the acquisition had been completed on 1 January 2009, total group revenue for the period would have been HK$634,988,000, and profit for the period would have been HK$107,292,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2009, nor is it intended to be a projection of future results.

## 27. ACQUISITION OF ADDITIONAL EQUITY INTEREST IN SUBSIDIARIES

In March 2008, the Group entered into an agreement to acquire the remaining 9.75% equity interest in an existing non-wholly owned subsidiary, SinoCom Japan Corporation ("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 statement of comprehensive income 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 statement of comprehensive income for the year ended 31 December 2008.

## 28. DISPOSAL OF PARTIAL INTEREST IN A SUBSIDIARY

In November 2009, the Group entered into an agreement with Dr Shi Chongming, a director of the Company, to dispose of the Group's 8% equity interest in SinoCom Japan for a cash consideration of JPY28,116,000 (equivalent to approximately HK$2,463,000). The loss on disposal amounting to HK$284,000 was recognised in the consolidated statement of comprehensive income.

## 29. OPERATING LEASE COMMITMENTS

### The Group as lessee

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Minimum lease payments paid under operating leases during the year in respect of office premises | **39,035** | 46,398 |

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

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Within one year | **22,720** | 38,777 |
| In the second to fifth year inclusive | **6,819** | 23,945 |
| | **29,539** | 62,722 |

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.

## 30. 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.

## 30. RETIREMENT BENEFITS SCHEMES (Continued)

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

| | **2009** | 2008 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Retirement benefits contributions made during the year | **33,463** | 32,390 |

As at 31 December 2009, contributions of HK$8,932,000 (2008: HK$7,688,000) due in respect of the year ended 31 December 2009 had not been paid over the schemes.

## 31. RELATED PARTY TRANSACTIONS

During the year ended 31 December 2009, the Group received revenue from outsourcing software development services of nil (2008: HK$291,000) from an associate and technical support services of HK$467,000 (2008: HK$1,515,000) and HK$3,972,000 (2008: nil) from an associate and a related party SinoCom Rier Technology (Beijing) Co., Ltd. ("Beijing Rier") respectively. The revenue from technical support services were derived from three technology development agreements entered into between SinoCom Beijing and Beijing Rier on 15 June 2009, 1 July 2009 and 1 September 2009 respectively. A director of the Company held a 59% equity interest in Beijing Rier.

In November 2009, the Group disposed of an 8% equity interest in SinoCom Japan to Dr Shi Chongming, a director of the Company, for a cash consideration of JPY28,116,000 (equivalent to approximately HK$2,463,000), further details of which are set out in note 28. In addition, a shareholder advance HK$37,000,000 to the Group in December 2009 and this advance was fully repaid in January 2010.

In January 2008, the Group acquired the 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 26.

Details of balances with related parties at the end of the reporting period are set out in the consolidated statement of financial position and in note 19.

## 31. RELATED PARTY TRANSACTIONS (Continued)

### Compensation of key management personnel

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

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Short-term benefits | **19,988** | 22,808 |
| Share-based payment expenses | **185** | 486 |
| Post-employment benefits | **786** | 959 |
| | **20,959** | 24,253 |

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 Company having regard to the performance of individuals and market trends.

## 32. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT

### (a) Categories of financial instruments

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Financial assets | | |
| Held for trading investments | **74** | – |
| Loans and receivables (including cash and cash equivalents) | **707,284** | 673,638 |
| | **707,358** | 673,638 |
| Financial liabilities | | |
| Liabilities measured at amortised cost | **114,446** | 71,640 |

The Group's major financial instruments include held for trading investments, trade receivables, other receivables, amounts due from related parties, bank balances and cash, trade payables, other payables and amounts 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.

## 32. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (Continued)

### (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 and liabilities 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 end of the reporting period are as follows:

| | **Liabilities** | | **Assets** | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| USD | **–** | – | **16,148** | 16,312 |
| JPY | **16,150** | 15,064 | **177,543** | 148,336 |
| HK$ | **12,652** | 2,750 | **65,695** | 23,590 |

The sensitivity analysis below has been determined based on the exposure to a 5% (2008:10%) increase and decrease in the functional currencies of respective subsidiaries against the relevant foreign currencies. 5% (2008:10%) 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. The sensitivity analysis includes outstanding amounts of relevant subsidiaries' foreign currency denominated monetary items and adjusts their translation at the period end for a 5% (2008:10%) change in foreign currency rates. For a 5% (2008:10%) strengthening of functional currencies of respective subsidiaries against the relevant foreign currencies, the profit for the year will be decreased. For a 5% (2008:10%) 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.

## 32. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (Continued)

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

#### *(i) Market risk (Continued)*

*Foreign currency risk (Continued)*

| | Impact of USD | | Impact of JPY | | Impact of HK$ | |
|---|---|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Profit for the year | **(750)** | (1,503) | **(5,165)** | (9,092) | **(2,652)** | (2,084) |

#### *(ii) Credit risk*

As at 31 December 2009, 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 counterparities is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the Group reviews the recoverable amount of each individual trade receivable at the end of each reporting period 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.

Other than concentration of credit risk described above, the Company does not have any other significant concentration of credit risk.

## 32. 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 in accordance with agreed repayment terms. The tables include principal cash flows.

| | **Within 90 days** | **Total undiscounted cash flows** | **Total carrying amount** |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| 2009 | | | |
| Trade payables | 3,890 | 3,890 | 3,890 |
| Other payables | 73,556 | 73,556 | 73,556 |
| Amount due to a related party | 37,000 | 37,000 | 37,000 |
| | 114,446 | 114,446 | 114,446 |
| 2008 | | | |
| Trade payables | 3,283 | 3,283 | 3,283 |
| Other payables | 68,345 | 68,345 | 68,345 |
| Amount due to a related party | 12 | 12 | 12 |
| | 71,640 | 71,640 | 71,640 |

## 32. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (Continued)

### (c) Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets with standard terms and conditions and traded in active liquid market are determined with reference with reference to quoted market bid prices, and

- The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximated their fair values.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs).

| | 2009 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Held for trading investments | 74 | – | – | 74 |

## 32. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (Continued)

### (d) 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 of the Company consider the cost of capital and the risks associated with each class of capital. As at 31 December 2009 and 2008, the gearing ratio determined as the proportion of net debt (bank borrowings and advance from a shareholder less cash and cash equivalents) was 6.2% (2008: 0%). The Group expects to maintain low gearing ratio because of its cash-rich position.

## 33. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2009 and 2008 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 | | Indirectly | | |
| | | | **2009** | 2008 | **2009** | 2008 | |
| SinoCom BVI | British Virgin Islands | Ordinary shares US$3,624,502 | **100%** | 100% | **-** | – | Investment holding |
| SinoCom Japan (Note a) | Japan | Ordinary shares JPY40,000,000 | **-** | – | **92%** | 100% | 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 b) | British Virgin Islands | Ordinary shares US$474,671 | **-** | – | **100%** | 100% | Investment holding |
| SinoCom Innovative (Note b) | PRC | Registered capital US$370,000 | **-** | – | **100%** | 100% | Provision of outsourcing software development and technical support services |

## 33. PRINCIPAL SUBSIDIARIES (Continued)

| Name of subsidiary | Place of incorporation and operation | Class of capital held | Proportion ownership interest held by the Company | | | | Principal activities |
|---|---|---|---|---|---|---|---|
| | | | Directly | | Indirectly | | |
| | | | **2009** | 2008 | **2009** | 2008 | |
| 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 capita US$232,000 | **-** | – | **100%** | 100% | Provision of outsourcing software development and technical support services |
| SinoCom Holdings Japan (Note c) | Japan | Registered capital JPY10,000,000 | **-** | – | **100%** | 100% | Provision of outsourcing software development services |
| SinoCom Global Solutions | Japan | Registered capital JPY40,000,000 | **-** | – | **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 a: In March 2008, the Group acquired the remaining 9.75% of SinoCom Japan as detailed in note 27. In November 2009, the group disposed of 8% equity interest in SinoCom Japan to Dr Shi Chongming, a director of the Company as detailed in note 28.

Note b: In July 2008 and November 2008, the Group acquired the remaining 10.84% of SinoCom Development as detailed in note 27.

Note c: In April 2008, the Group acquired the entire equity interest in SinoCom Holdings Japan as detailed in note 26.

Note d: None of the subsidiaries had issued any debt securities at 31 December 2009 and 2008.

Note e: The above table lists the subsidiaries of the Group which, in the opinion of the Company's 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.