SinoCom
Software

INTERIM REPORT 2010

SinoCom

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

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

CONTENTS

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board") of SinoCom Software Group Limited (the "Company"), I am pleased to report the unaudited interim results of the Company and its subsidiaries (collectively as the "Group") for the six months ended 30 June 2010 (the "Period").

BUSINESS REVIEW

In the Period, the world economic climate seemed to restore growing, yet the recovery was fragile and tottering. The seemingly devastating outburst of financial crises in Europe fueled a series of Euro-zone sovereignty downgrading that rippled to the rest of the world and rendered the recovering but delicate global economy to tumble once again into anxiety. Yet, in China domestically the economic adjustments that aimed at the looming inflationary pressure were implemented to temper the overheated economy. It is against this bipolar backdrop brought that the investment eco-environment globally and in China was as confusing as it was challenging.

Competition remained keen for the Group's software outsourcing business for the Period. China's software outsourcing business from Japan continued to shrink. However, thanks to the Group's solid business base in this geographical domain, we continued to enjoy competitive edges against our counterparts. On another front, customers' demand for higher and higher levels of quality was insatiable, thus squeezing the Group's profitability as prices remained stagnant. Our diversification into the domestic market began to pay off although its extent was not great enough to be conducive to Group's overall performance in a significant way. In this regard, more resources will be allocated to give it a boost.

FUTURE PROSPECTS

Amid this uncertain economic environment worldwide and the keen competition that is here to stay the Group will endeavor to identify solutions and to diversify our business into potential arenas. On the other hand, our customers' ever increasing demand for higher yet higher quality of our software services will continue to plague the burden of our labor cost. Hence, the Group is seriously considering raising our prices that have remained unchanged for years.

To pave way for the sunny days when the economy gradually recovers and to prepare ourselves for opportunities that may develop in the future, we will strive to increase our investment in software outsourcing to warrant that we can outcompete our contenders in projects and that we can meet with business expansion when projects stack up. All along, SinoCom has focused on developing rapport with its business partners, which has proved to be effective. Hence, one of our major customers is prepared to entrust its key software outsourcing projects to us. In the process of making preparations, the Group believes that it will contribute positively in the context of the Group's future performance.

In the Period, the Group began making its foray into North America by setting up its software outsourcing presence there. We also successfully bided for a software servicing contract from a UK bank and have been successfully awarded with the contract. We are now in the process of nailing down the terms and conditions and believe that a contract will soon be signed and services provided.

Despite the fierce challenges that the Group faced during the half-year period under review, we have never been wavered rather we have affirmed our convictions. The Board has every reason to be optimistic about our future prospect.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS FOR THE PERIOD

Turnover

Turnover of the Group for the six months ended 30 June 2010 amounted to approximately HK$294 million, representing a decrease of approximately 9% and 5%, over the first and second half year in 2009 respectively. Revenue was derived from outsourcing software development services and from technical support services, which accounted for approximately 96% and 4% of the total revenue respectively. Revenue from these two service segments dropped at 9% and 19% respectively from the same period last year. Geographical market was divided into Japan and PRC and each accounted for approximately 94% and 6% respectively. Decreased revenue from outsourcing software development services was mainly due to demand shifted from labour intensive basic development to more high level design work that the Group did not have enough human resources on the high end spectrum capturing the change at the moment. Customers also raised productivity and efficiency standards led to tighter chargeable headcount contract terms during business negotiations. The major technical support customer was fading out outsourcing strategy during the Period with a plan to completely stopping the business before end of 2010. Revenue derived therefrom was inevitably suffered. Top five customers accounted for approximately 75% of the total revenue. There was no change in the top two customers ranking from same period 2009 that they accounted for approximately 64% of the total revenue in aggregate.

Gross profit and cost of services

Gross profit of the Group for the Period amounted to approximately HK$67 million, representing approximately a decrease of 29% over the same period last year. Non-synchronization of cost of services drop to declined turnover was the root cause. Gross profit margin was approximately 23% which was less than the 29% achieved same period last year. The 6% gross profit margin difference was mainly attributable to higher costs delivering more advance work at lower chargeable headcount contract terms as a result of demand shift and higher productivity and efficiency standards from customers.

Cost of services amounted to approximately HK$228 million, representing a slight decrease of approximately HK$2 million or 1%. Major costs comprised labour costs, rent, travelling, and sub-contracting out. Among which, labour costs increased by approximately HK$4 million notwithstanding there was a decrease in turnover. Average manufacturing headcounts during the Period was 2,428, an decrease of 6% over that of 2,574 in same period last year. Most of the decreased headcounts were general technicians and interns. Labour cost per average manufacturing head increase by approximately 7% for employees located in PRC and in Japan during the Period. Labour cost consisted salary, bonus, insurance, and welfare, increased by approximately 2% above that of same period last year irrespective the decrease in headcounts. More high level engineers proportionally on the payroll cancelled out the pay cut from reduced headcounts. One of the customers introduced an "One Made" program consolidating outsourced work to several key subcontractors in the PRC required the Group among other key subcontractors to take part in handover preparation free of charge from subcontractors in Japan to be eliminated. It was actually a good move in the longer term at present cost pressure.

Other income

Other income included exchange gain, interest income and government subsidies of approximately HK$9 million for the Period. Government subsidies were mainly training subsidies under new policies launched to encourage outsourcing software development services industry in PRC which reduced from approximately HK$5 million last year same period to HK$1 million as there were fewer new recruits during the Period. The Group earned an exchange gain of approximately HK$1.9 million during the Period, where there was a loss of approximately HK$6.6 million in the same period last year.

Operating expenses before exchange gain/loss

Operating expenses before exchange gain/loss during the Period amounted to approximately HK$40 million, an increase of approximately 8% over that of HK$37 million same period last year. Administrative expenses of a newly setup subsidiary in Japan for new business development was one of the accounting factor. Otherwise, the Group controlled its cost effectively. There was also an impairment loss on goodwill of a subsidiary previously acquired for an amount of HK$2.6 million.

Income tax expenses

During the Period, income tax expenses for all subsidiaries in PRC other than the principal subsidiary, SinoCom Beijing, and those enjoying tax holidays were provided at 25%. SinoCom Beijing, being qualified as New and High Technical Enterprise, entitled to a more favorable income tax rate at 15% and tax has been therefore provided at 15%. When SinoCom Beijing is recognized as a key software enterprise under the State plan this year, it would further enjoy a lower tax rate at 10%. The 5% over-provision will be written back when key software enterprise status is granted. SinoCom Beijing was recognized as such consecutively in the past few years.

Liquidity, financial resources and gearing ratio

Net assets

As at 30 June 2010, the Group recorded total assets of approximately HK$670 million which were financed by liabilities of HK$99 million, minority interest of HK$4 million and equity of HK$567 million. The Group's net assets value as at 30 June 2010 decreased by 5% to approximately HK$571 million as compared to approximately HK$601 million as at 31 December 2009.

Liquidity

The Group had a total cash and bank balances of approximately HK$545 million as at 30 June 2010 (As at 31 December 2009: approximately HK$594 million). The Group did not have any bank borrowings. Current ratio was 7.5 times as at 30 June 2010 (As at 31 December 2009: 5.5 times).

Foreign exchange exposure

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

Pledge of Asset

As at 30 June 2010, the Group did not pledge any of its assets to obtain banking facilities nor have any charge on its assets (As at 31 December 2009: Nil).

Contingent Liabilities

As at 30 June 2010, the Group did not have any material contingent liabilities. (As at 31 December 2009: Nil).

OUTLOOK

Ripples of the Financial Tsunami has been affecting the Group's software development outsourcing business from Japan adversely, it took longer time to recover from the management's expectation. Currently, the Group is still under cost pressure of salary inflation, compensation plan to retain and attract high level employees, higher productivity and efficiency requirements from customers. Growth will be picked up gradually at a pace according to economic environment and factors peculiar to different sectors of the finance industry. Business with one of the Group's major customers decreased as a result of the recent recession of the finance industry in Japan. The Group's focus and expertise rest on this vertical market segment and inevitably will be affected. This customer launched a "One Made" program consolidating orders used to be outsourced to sub-contractors in Japan to the Group would be a good move promising growth opportunities to the Group in the longer term, at current cost though for handover preparation work and resources building. New stars will be projects from the insurance industry in Japan under its current reform. Projects are being rolled out at small scale at inception stage. The Group already secured new business opportunities for these projects that will bring meaningful contributions to the Group during the massive labour intensive development stage. The demand shift trend from mid-low end moving upstream as a cost saving measure became obvious. The Group is exploring with an existing customer for equity interest cooperation in order to induce more new business opportunities from Japan. Accordingly, the Group is recruiting senior engineers as part of its reorganization in human resources pool. In the short term, average cost per head will increase. In the longer term, the Group will equip itself ready for sophisticated projects from top to bottom further strengthening its competitive edge. The Group will adjust its scale organically in accordance with the coming business volume trend. New growth in PRC or in other markets by means of merger and acquisition will be subject to uncertainties as to availability of suitable targets and the timing of completion. Nevertheless, the Group continues to keep a close eye on any acquisition opportunities on sizeable companies.

Employee and Remuneration Policies

As at 30 June 2010, total headcount of the Group reached 2,498 breaking down into 2,255 in China and 243 in Japan. Employees are remunerated based on their performance, work experience and the prevailing market rates. Performance related bonuses are granted on a discretionary basis. Other employee benefits include pension fund, insurance and medical coverage, training programs and participation in the Group's share option scheme.

Share Option Scheme

As at 30 June 2010, there were options for 36,450,000 ordinary shares of HK$0.025 each in the share capital of the Company (the "Share(s)") granted by the Company pursuant to the option scheme, as adopted by the shareholders of the Company on 2 April 2004 (the "Option Scheme"), which were valid and outstanding. No options were lapsed during the six months ended 30 June 2010.

Audit Committee

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

Compliance with the Code on Corporate Governance Practices

The Company is committed to maintaining a high standard of corporate governance. During the accounting period ended 30 June 2010, the Company had met the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules") except A.2.1 that Mr. Wang Zhiqiang had been both the Chairman and Chief Executive Officer of the Company. The roles of the Chairman of the Board and the Chief Executive Officer were not separated because, to our belief, the separation might not enhance the Group's efficiency and business operation. The balance of power and authority is ensured by regular discussion and meetings of the Board and active participation of independent non- executive directors. The Board continues to review its practices from time to time with an aim to improve the Group's corporate governance practices so as to meet international best practice.

Compliance with the Model Code set out in Appendix 10 to the Listing Rules

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

DIRECTORS' INTEREST IN SHARES

As at 30 June 2010, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance "SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) of which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

Ordinary shares of HK$0.025 each

(a) Interests in the Company

Name of Director	Capacity/ Nature of interest	No. of shares of the Company	*Notes*	Approximate percentage of shareholding
Mr. Wang Xubing	Interest of a controlled corporation	563,000,000 (L)	1	50.38%
Mr. Wang Zhiqiang	Interest of a controlled corporation	563,000,000 (L)	2	50.38%
Dr. Shi Chongming	Beneficial owner	4,043,200 (L)		0.36%
Mr. Siu Kwok Leung	Beneficial owner	4,280,000 (L)		0.38%

Notes:

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

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

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

(b) Interests in associated corporation of the Company

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

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

Save as disclosed herein, as at 30 June 2010, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

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

As at 30 June 2010, details of substantial shareholders' and other persons' (who are required to disclose their interests pursuant to Part XV of the SFO) interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO are as follows:

(a) Interests in Shares

Name of shareholder	Capacity/ Nature of interest	No. of shares of the Company	*Notes*	Approximate percentage of shareholding
China Way	Beneficial owner	563,000,000 (L)		50.38%
Mr. Wang Xubing	Interest of a controlled corporation	563,000,000 (L)		50.38%
Mr. Wang Zhiqiang	Interest of a controlled corporation	563,000,000 (L)		50.38%
Madam Zhang Yue	Interest of spouse	563,000,000 (L)	1	50.38%
Madam Yuan Yue Ling	Interest of spouse	563,000,000 (L)	2	50.38%
FMR LLC	Beneficial owner	78,706,000 (L)		7.04%
Nomura Holdings, Inc.	Interest of a controlled corporation	72,356,100 (L)		6.48%
Nomura Research Institute Ltd.	Beneficial owner	72,356,100 (L)		6.48%
Commonwealth Bank of Australia	Beneficial owner	67,272,000 (L)		6.02%
Matthews International Capital Management, LLC	Beneficial owner	55,926,000 (L)		5.00%

Notes:

1. Madam Zhang Yue is the wife of Mr. Wang Xubing and is deemed to be interested in the 563,000,000 shares in which Mr. Wang Xubing is deemed or taken to be interested for the purposes of the SFO.

2. Madam Yuan Yue Ling is the wife of Mr. Wang Zhiqiang and is deemed to be interested in the 563,000,000 shares in which Mr. Wang Zhiqiang is deemed or taken to be interested for the purposes of the SFO.

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

(b) Short Position in Shares and Underlying Shares

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	Notes	Six months ended 30 June **2010** **HK$'000** **(unaudited)**	 2009 HK$'000 (unaudited)
Revenue		**294,194**	324,285
Cost of services		**(227,574)**	(230,374)
Gross profit		**66,620**	93,911
Administrative expenses		**(40,066)**	(43,596)
Share of loss of an associate		**–**	(48)
Other income and gains		**8,979**	10,624
Impairment loss on goodwill		**(2,555)**	–
Profit before taxation		**32,978**	60,891
Taxation	4	**(12,109)**	(21,464)
Profit for the period	5	**20,869**	39,427
Other comprehensive income			
Exchange differences arising on translation from functional currency to presentation currency		**4,807**	(3,833)
Reclassification adjustment on translation difference upon liquidation of a subsidiary		**(2,587)**	–
Other comprehensive income (expense) for the period		**2,220**	(3,833)
Total comprehensive income for the period		**23,089**	35,594
Profit for the period attributable to:			
Owners of the Company		**20,677**	39,372
Non-controlling interests		**192**	55
		20,869	39,427
Total comprehensive income for the period attributable to:			
Owners of the Company		**22,864**	35,539
Non-controlling interests		**225**	55
		23,089	35,594
Earnings per share	7		
– Basic		**HK1.85 cents**	HK3.54 cents
– Diluted		**HK1.85 cents**	HK3.53 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2010

	Notes	30 June 2010 HK$'000 (unaudited)	31 December 2009 HK$'000 (audited)
Non-current assets			
Plant and equipment	8	**13,002**	13,376
Goodwill		**6,608**	9,078
Other deposits		**3,269**	2,056
Deferred tax assets		**3,490**	2,921
		26,369	27,431
Current assets			
Trade and other receivables	9	**99,312**	121,161
Amount due from a related party	11	**–**	3,975
Held for trading investments		**36**	74
Bank balances and cash		**544,564**	593,751
		643,912	718,961
Current liabilities			
Trade and other payables	10	**77,018**	85,283
Amount due to a shareholder	11	**–**	37,000
Tax liabilities		**8,445**	9,357
		85,463	131,640
Net current assets		**558,449**	587,321
		584,818	614,752
Capital and reserves			
Share capital	12	**27,936**	27,868
Reserves		**538,733**	569,345
Equity attributable to owners of the Company		**566,669**	597,213
Non-controlling interests		**4,108**	3,852
Total equity		**570,777**	601,065
Non-current liabilities			
Deferred tax liabilities		**14,041**	13,687
		584,818	614,752

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

	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$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2009 (audited)	27,826	161,717	1,623	10,657	5,078	25,829	2,726	64,700	18,478	281,341	599,975	3,252	603,227
Exchange differences arising on translation from functional currency to presentation currency	-	-	-	-	-	-	-	(3,833)	-	-	(3,833)	-	(3,833)
Profit for the period	-	-	-	-	-	-	-	-	-	39,372	39,372	55	39,427
Total comprehensive income for the period	-	-	-	-	-	-	-	(3,833)	-	39,372	35,539	55	35,594
Exercise of share options	33	996	-	-	-	-	-	-	(216)	-	813	-	813
Recognition of equity-settled share based payments expenses	-	-	-	-	-	-	-	-	1,266	-	1,266	-	1,266
Dividends recognised as distribution	-	-	-	-	-	-	-	-	-	(111,435)	(111,435)	-	(111,435)
Balance at 30 June 2009 (unaudited)	27,859	162,713	1,623	10,657	5,078	25,829	2,726	60,867	19,528	209,278	526,158	3,307	529,465
Balance at 1 January 2010 (audited)	**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**
Exchange differences arising on translation from functional currency to presentation currency	-	-	-	-	-	-	-	**4,774**	-	-	**4,774**	**33**	**4,807**
Liquidation of a subsidiary	-	-	-	-	-	-	-	**(2,587)**	-	-	**(2,587)**	-	**(2,587)**
Profit for the period	-	-	-	-	-	-	-	-	-	**20,677**	**20,677**	**192**	**20,869**
Total comprehensive income for the period	-	-	-	-	-	-	-	**2,187**	-	**20,677**	**22,864**	**225**	**23,089**
Exercise of share options	**68**	**2,117**	-	-	-	-	-	-	**(472)**	-	**1,713**	-	**1,713**
Recognition of equity-settled share based payments expenses	-	-	-	-	-	-	-		**750**	-	**750**	-	**750**
Contribution from non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	**31**	**31**
Transfer	-	-	-	-	-	-	-	-	**(1,875)**	**1,875**	-	-	-
Dividends recognised as distribution	-	-	-	-	-	-	-	-	-	**(55,871)**	**(55,871)**	-	**(55,871)**
Balance at 30 June 2010 (unaudited)	**27,936**	**165,106**	**1,623**	**10,657**	**5,078**	**26,506**	**2,726**	**68,761**	**19,012**	**239,264**	**566,669**	**4,108**	**570,777**

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 their net profits to the general reserve funds until the funds aggregate to 50% of their registered capital. In accordance with their articles of association, PRC subsidiaries of the Company may transfer such amount of profits (after taxation) as determined by their board of directors to the general reserve fund before distribution to their shareholders. The general reserve fund is non-distributable and can be used to increase the capital of the PRC subsidiaries. The general reserve fund can also be used to make good future losses.

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

Note e: The Company repurchased 9,552,000 ordinary shares in 2008. 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.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2010

	Six months ended 30 June	
	2010	2009
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Net cash from operating activities	**41,349**	56,225
Net cash used in investing activities:		
Purchase of plant and equipment	**(2,090)**	(1,067)
Proceeds from disposal of plant and equipment	**5**	19
Settlement of consideration in relation to acquisition of additional interest in a subsidiary in prior year	**–**	(884)
	(2,085)	(1,932)
Net cash used in financing activities:		
Dividends paid	**(55,868)**	(55,116)
Decrease in amount due to a shareholder	**(37,000)**	–
Dividend paid to non-controlling interest shareholder	**(2,011)**	–
Proceeds from issue of shares upon exercise of share options	**1,713**	813
	(93,166)	(54,303)
Net decrease in cash and cash equivalents	**(53,902)**	(10)
Cash and cash equivalents at beginning of the period	**593,751**	538,545
Effects of foreign exchange rate change	**4,715**	(4,428)
Cash and cash equivalents at end of the period, represented by bank balances and cash	**544,564**	534,107

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK (IFRIC) – Int 17	Distributions of Non-cash Assets to Owners

The Group applies HKFRS 3 (Revised) *Business Combinations* prospectively to business combinations of which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) *Consolidated and Separate Financial Statements* in relation to accounting for the Group's changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current interim period to which HKFRS 3 (Revised) and HKAS 27 (Revised) is applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs has had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions to which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

The application of the other new and revised HKFRSs has had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

The Group has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKAS 24 (Revised)	Related Party Disclosures[4]
HKAS 32 (Amendment)	Classification of Rights Issues[2]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[3]
HKFRS 9	Financial Instruments[5]
HK (IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[4]
HK (IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
2 Effective for annual periods beginning on or after 1 February 2010
3 Effective for annual periods beginning on or after 1 July 2010
4 Effective for annual periods beginning on or after 1 January 2011
5 Effective for annual periods beginning on or after 1 January 2013

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. 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 other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

The Group's operating segments, based on information reported to the chief operating decision maker (i.e. the Group's Chief Executive Officer) for the purposes of resources allocation and assessment of performance, was analysed on the basis of the location of the customers' headquarters.

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

	Six months ended 30 June 2010		
	PRC	**Japan**	**Consolidated**
	HK$'000	**HK$'000**	**HK$'000**
Segment revenue	**17,930**	**276,264**	**294,194**
Cost of services	**(16,998)**	**(209,886)**	**(226,884)**
Gross profit	**932**	**66,378**	**67,310**
Administrative expenses	**(944)**	**(34,900)**	**(35,844)**
Segment (loss) profit	**(12)**	**31,478**	**31,466**
Other income and gains			**8,979**
Impairment loss on goodwill			**(2,555)**
Unallocated corporate expenses			**(4,912)**
Profit before taxation			**32,978**

	Six months ended 30 June 2009		
	PRC	Japan	Consolidated
	HK$'000	HK$'000	HK$'000
Segment revenue	25,561	298,724	324,285
Cost of services	(23,408)	(205,803)	(229,211)
Gross profit	2,153	92,921	95,074
Administrative expenses	(1,055)	(32,712)	(33,767)
Segment profits	1,098	60,209	61,307
Share of loss of an associate			(48)
Other income and gains			10,624
Unallocated corporate expenses			(10,992)
Profit before taxation			60,891

3. SEGMENT INFORMATION (continued)

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

Segment profit/loss represents the profit/loss earned by each segment without allocation of central administration costs, directors' salaries, share of loss of an associate, share-based payment expenses, other income and gains and impairment on goodwill. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

4. TAXATION

	Six months ended 30 June	
	2010	2009
	HK$'000	HK$'000
Current tax		
PRC enterprise income tax	**885**	13,318
Japan income tax	**3,616**	6,641
Withholding tax on capital gain on liquidation of a subsidiary	**7,804**	–
	12,305	19,959
Deferred tax		
Current period	**(196)**	1,505
	12,109	21,464

SinoCom Beijing, the Group's principal operating subsidiary, was recognised as a key software enterprise under the State plan by the relevant PRC government authorities in January 2009 under the Law of the PRC on Enterprise Income tax. SinoCom Beijing is required to perform the re-verification process to maintain the key software enterprise status for the year ended 31 December 2009, which was subsequently approved by the relevant PRC government authorities in January 2010. Accordingly, for the six-month period ended 30 June 2009 SinoCom Beijing was subject to the unified tax rate of 25% before the completion of the re-verification process.

In accordance with the "Notice of the State Tax Bureau of the Ministry of Finance Regarding Certain Preferential Treatment Policies on Enterprise Income Tax", New and High Technical Enterprise was subject to income tax at a tax rate of 15%. SinoCom Beijing was recognised as New and High Technical Enterprise on 23 July 2009 for three years in accordance with the applicable enterprise income tax law of the PRC and was subject to income tax at a tax rate of 15% from 2009 to 2011 approved by the State Tax Bureau on 6 January 2010. Accordingly, for the six-month period ended 30 June 2010, SinoCom Beijing is subject to the tax rate of 15% before the re-verification process completes.

SinoCom Shensoft Computer Technology (Shanghai) Company Limited ("Shensoft Shanghai") and SinoCom Information Technology (Shandong) Limited ("SinoCom Shandong"), subsidiaries of the Company, 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.

Shensoft Shanghai is entitled to the tax holidays and concessions from 2006. SinoCom Shandong is entitled to the tax holidays and concessions from 2009.

4. TAXATION (continued)

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

Taxation arising in Japan comprises corporate tax, corporate enterprise tax, special local corporate tax and corporate inhabitant tax. Corporate tax is calculated at a progressive statutory rate of 18% on the portion of taxable income not exceeding Japanese Yen ("JPY") 8,000,000 (equivalent to approximately HK$682,000, six months ended 30 June 2009: HK$645,000) and 30% on the portion of taxable income in excess of JPY8,000,000. Corporate enterprise tax is calculated at a progressive statutory rate of 2.95% on the portion of taxable income not exceeding JPY4,000,000 (equivalent to approximately HK$341,000, six months ended 30 June 2009: HK$323,000), 4.365% on the portion of taxable income in excess of JPY4,000,000 but not exceeding JPY8,000,000 and 5.78% on the portion of taxable income in excess of JPY8,000,000. 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, six months ended 30 June 2009: HK$6,000) to JPY200,000 (equivalent to approximately HK$17,000, six months ended 30 June 2009: HK$16,000), depending on the headcount and capital of the entities.

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

5. PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2010	2009
	HK$'000	HK$'000
Depreciation of plant and equipment	**2,560**	3,662
Loss on disposal of plant and equipment	**44**	143
Operating lease rentals in respect of premises	**19,556**	20,675
Share-based payments expense	**750**	1,266
Net foreign exchange (gain) loss	**(1,937)**	6,578
Interest income	**(2,819)**	(5,308)
Government subsidies	**(1,027)**	(5,013)

6. DIVIDEND

In respect of the financial year ended 31 December 2009, a final dividend of HK5.00 cents per share (total dividend HK$55,871,000) was declared on 18 May 2010. In May and June 2010, dividend of HK$55,868,000 was paid to the shareholders with HK$3,000 remaining as dividend payable.

In respect of the financial year ended 31 December 2008, a final dividend of HK6.00 cents per share and a special dividend of HK4.00 cents per share (total dividend HK$111,435,000) were declared on 1 April 2009. All such dividends were paid to the shareholders during the year ended 31 December 2009.

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

7. 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:

	Six months ended 30 June	
	2010	2009
	HK$'000	HK$'000
Earnings		
Profit for the period attributable to owners of the Company	**20,677**	39,372

	Six months ended 30 June	
	2010	2009
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,116,209**	1,113,518
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	**2,794**	1,032
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**1,119,003**	1,114,550

8. MOVEMENTS IN PLANT AND EQUIPMENT

During the period, the Group disposed of certain plant and equipment with the aggregate carrying amount of HK$49,000 (six months ended 30 June 2009: HK$162,000) for proceeds of HK$5,000 (six months ended 30 June 2009: HK$19,000), resulting in a loss on disposal of HK$44,000 (six months ended 30 June 2009: HK$143,000). In addition, the Group spent HK$2,090,000 (six months ended 30 June 2009: HK$1,067,000) on additions to plant and equipment.

9. TRADE AND OTHER RECEIVABLES

	30 June 2010	31 December 2009
	HK$'000	HK$'000
Trade receivables	**75,482**	95,843
Other receivables	**10,102**	13,715
Other deposits	**7,220**	7,530
Deposits paid for subscription of trading securities	**3,020**	–
Prepayments	**3,488**	4,073
Total trade and other receivables	**99,312**	121,161

9. TRADE AND OTHER RECEIVABLES (continued)

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

	30 June 2010 HK$'000	31 December 2009 HK$'000
0-30 days	**72,116**	83,244
31-60 days	**1,754**	11,369
61-90 days	**662**	567
91-180 days	**941**	663
Over 180 days	**9**	–
	75,482	95,843

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

	30 June 2010 HK$'000	31 December 2009 HK$'000
61-90 days	**112**	566
91-180 days	**941**	663
Over 180 days	**9**	–
	1,062	1,229

10. TRADE AND OTHER PAYABLES

	30 June 2010 HK$'000	31 December 2009 HK$'000
Trade payables	**2,903**	3,890
Wages and salaries payable	**56,642**	68,110
Accruals	**2,734**	697
Other tax payables	**10,556**	7,140
Payable for outstanding consideration for acquisition of additional equity interest in a subsidiary	**196**	196
Dividend payable to non-controlling shareholder of a subsidiary	**–**	2,011
Other payables	**3,987**	3,239
	77,018	85,283

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

10. TRADE AND OTHER PAYABLES (continued)

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

	30 June 2010 HK$'000	31 December 2009 HK$'000
0-30 days	**1,794**	2,405
31-60 days	**1,109**	1,485
	2,903	3,890

11. AMOUNTS WITH RELATED PARTIES

	30 June 2010 HK$'000	31 December 2009 HK$'000
Amount due from a related party	**–**	3,975
Amount due to a shareholder	**–**	37,000

The amounts were unsecured, non-interest bearing and fully repaid in current period.

12. SHARE CAPITAL

	Number of shares '000	HK$'000
Authorised:		
Ordinary shares of HK$0.025 each, at 1 January 2009, 31 December 2009 and 30 June 2010	4,000,000	100,000
Issued and fully paid:		
At 1 January 2009	1,113,051	27,826
Exercise of share options *(Note i)*	1,660	42
At 31 December 2009	1,114,711	27,868
Exercise of share options *(Note ii)*	2,740	68
At 30 June 2010	1,117,451	27,936

Notes:

(i) 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.

(ii) During the six months ended 30 June 2010, share options to subscribe for 2,740,000 ordinary shares of HK$0.025 each were exercised at HK$0.625 per share.

13. SHARE-BASED PAYMENTS

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

Details of specific category of options are as follows:

Date of grant	Vesting period	Exercise price
10/11/2004	10/11/2004-09/05/2008	HK$0.625
24/01/2006	24/01/2006-23/01/2010	HK$1.3875
28/01/2008	28/01/2008-27/01/2011	HK$1.36
28/01/2008	28/01/2008-27/01/2013	HK$1.36

Details of movements of the share options, all of which were granted to the employees of the Group, during the six months ended 30 June 2010 are as follows:

Date of grant	Outstanding at 1/1/2010	Exercised during the period	Forfeited during the period	Outstanding at 30/6/2010
10/11/2004	7,760,000	(2,740,000)	–	5,020,000
24/01/2006	17,080,000	–	(1,280,000)	15,800,000
28/01/2008	15,030,000	–	(600,000)	14,430,000
28/01/2008	1,200,000	–	–	1,200,000
	41,070,000	(2,740,000)	(1,880,000)	36,450,000

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

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

14. OPERATING LEASE COMMITMENTS

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

	30 June 2010 HK$'000	31 December 2009 HK$'000
Within one year	**31,781**	22,720
In the second to fifth year inclusive	**21,785**	6,819
	53,566	29,539

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

15. RELATED PARTY TRANSACTIONS AND BALANCES

During the six months ended 30 June 2010, the Group received revenue from technical support services of nil (six months ended 30 June 2009: HK$467,000) from an associate. In addition, details of balances with related parties at the end of respective reporting periods are set out in the condensed consolidated statement of financial position and note 11.

Compensation of key management personnel

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

	Six months ended 30 June	
	2010 HK$'000	2009 HK$'000
Salaries and other benefits	**9,437**	10,189
Retirement benefits scheme contributions	**508**	452
	9,945	10,641

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