Annual 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

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr Wang Zhiqiang
Mr Wang Xubing
Dr Shi Chongming
Mr Siu Kwok Leung

Non-executive Director
Mr Wang Nengguang

Independent Non-executive Directors
Mr Pang Chor Fu
Professor Liang Neng
Mr Lee Kit Wah

COMPANY SECRETARY
Mr Siu Kwok Leung *FCCA, AHKICPA*

QUALIFIED ACCOUNTANT
Mr Siu Kwok Leung *FCCA, AHKICPA*

AUTHORISED REPRESENTATIVES
Mr Wang Zhiqiang
Mr Siu Kwok Leung

AUDIT COMMITTEE
Mr Pang Chor Fu
Professor Liang Neng
Mr Lee Kit Wah

SALARY REVIEW COMMITTEE
Mr Wang Zhiqiang
Mr Wang Nengguang
Mr Pang Chor Fu
Professor Liang Neng
Mr Lee Kit Wah

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS
9th Floor, Tengda Building
No. 168 Xizhimenwai Street
Haidian District
Beijing
China

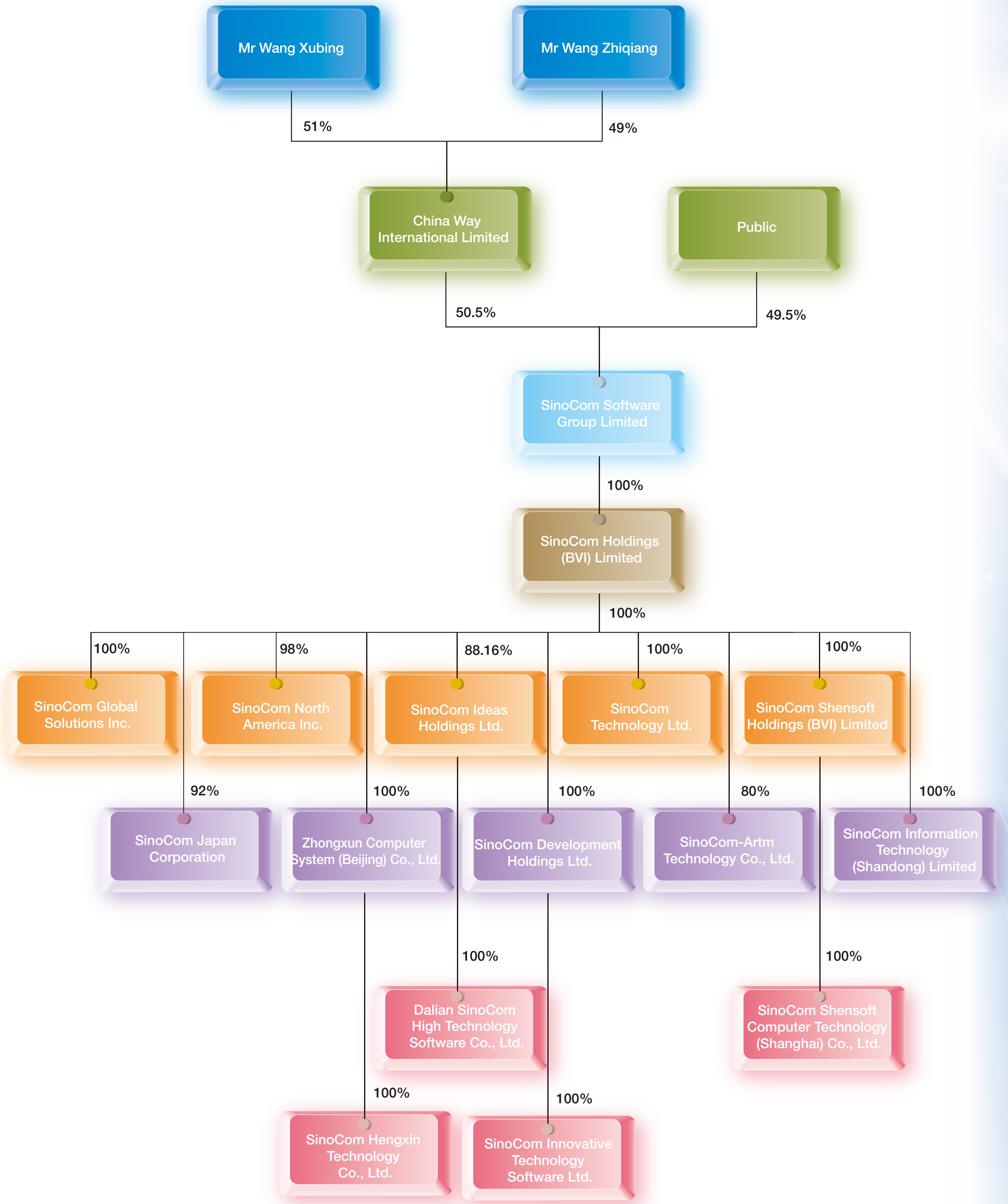
PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Units 1601, 16/F Shui On Centre
6–8 Harbour Road
Wanchai
Hong Kong

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%
SinoCom Global Solutions Inc.
98%
SinoCom North America Inc.
88.16%
SinoCom Ideas Holdings Ltd.
100%
SinoCom Technology Ltd.
100%
SinoCom Shensoft Holdings (BVI) Limited
92%
SinoCom Japan Corporation
100%
Zhongxun Computer System (Beijing) Co., Ltd.
100%
SinoCom Development Holdings Ltd.
80%
SinoCom-Artm Technology Co., Ltd.
100%
SinoCom Information Technology (Shandong) Limited
100%
Dalian SinoCom High Technology Software Co., Ltd.
100%
SinoCom Shensoft Computer Technology (Shanghai) Co., Ltd.
100%
SinoCom Hengxin Technology Co., Ltd.
100%
SinoCom Innovative Technology Software Ltd.

FINANCIAL SUMMARY

RESULTS

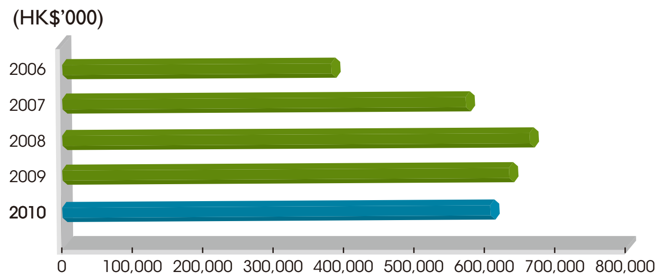
	Year ended 31 December				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TURNOVER	**609,432**	634,470	657,831	564,507	377,433
PROFIT BEFORE TAXATION	**92,847**	133,447	166,891	138,491	86,105
TAXATION	**(23,101)**	(30,109)	(35,671)	(20,839)	(11,668)
PROFIT FOR THE YEAR	**69,746**	103,338	131,220	117,652	74,437
PROFIT ATTRIBUTABLE TO:					
OWNERS OF THE COMPANY	**69,010**	103,354	130,585	115,474	73,308
NON-CONTROLLING INTERESTS	**736**	(16)	635	2,178	1,129
	69,746	103,338	131,220	117,652	74,437
EARNINGS PER SHARE					
Basic (cents)	**6.18**	9.28	11.73	10.48	6.73
Diluted (cents)	**6.17**	9.26	11.66	10.30	6.54

ASSETS AND LIABILITIES

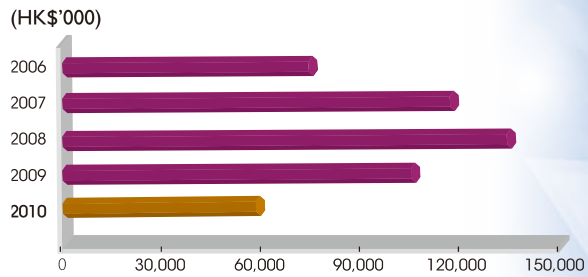
	As at 31 December				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**752,691**	746,392	721,040	587,727	439,176
TOTAL LIABILITIES	**(126,823)**	(145,327)	(117,813)	(81,991)	(46,150)
	625,868	601,065	603,227	505,736	393,026
EQUITY ATTRIBUTABLE TO:					
OWNERS OF THE COMPANY	**621,530**	597,213	599,975	500,510	384,334
NON-CONTROLLING INTERESTS	**4,338**	3,852	3,252	5,226	8,692
	625,868	601,065	603,227	505,736	393,026

FINANCIAL HIGHLIGHTS

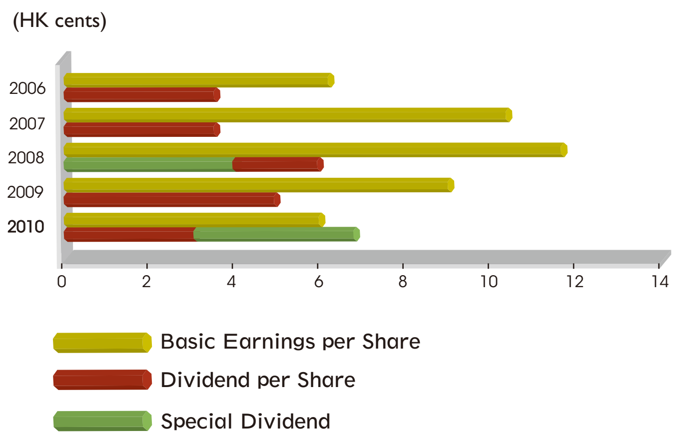
TURNOVER



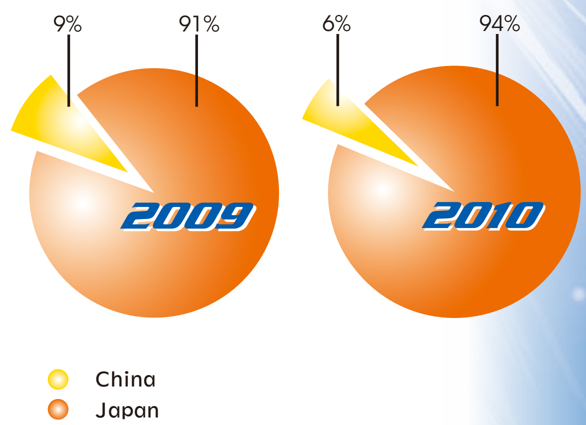
PROFIT ATTRIBUTABLE TO SHAREHOLDERS



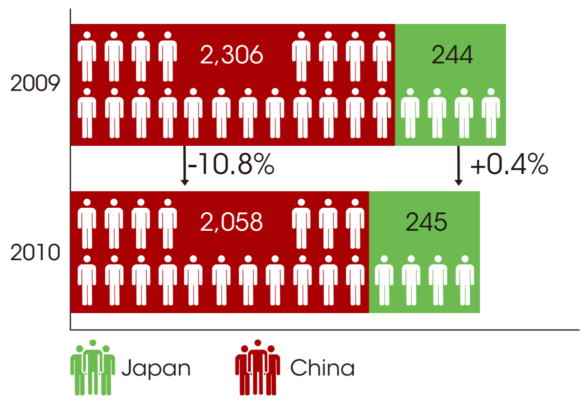
BASIC EARNINGS PER SHARE & DIVIDEND PER SHARE



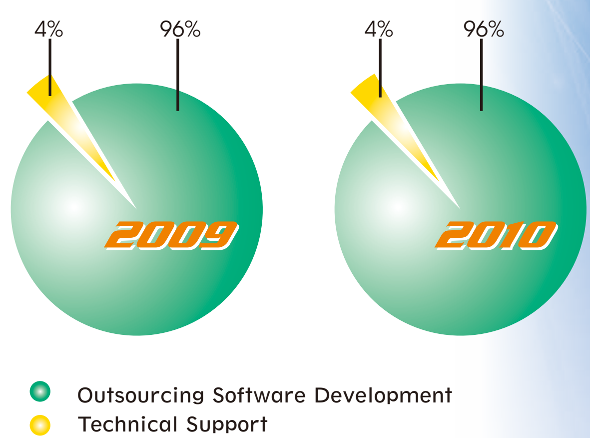
REVENUES BY COUNTRY



HEADCOUNTS



SCOPE OF SERVICES



CHAIRMAN'S STATEMENT

BUSINESS REVIEW

With asymmetric global economic recovery, China's economic growth momentum remains strong, but the driving force of economic development in Japan is comparatively weaker. Japan is the major business market of the Group. Under such circumstances, the sales performance in the past year still remained stable without any impact because of the Group's good brand reputation in the Japan market so that the competitive edge in accepting sales orders could be maintained. However, due to growing demand for high-end professionals from clients, the Group encountered increasing pressure on talents, and the Group is actively seeking solution to the problem. Nevertheless, facing the pressure of rising costs brought by the market competition for talents in the software development service market, the profitability of enterprises is subject to strong challenge.

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

In addition, the Renminbi ("RMB") appreciation, rising inflationary pressure and wage increase caused the operating costs of the Group rose at the same time, and the profits also declined correspondingly. Despite that the Japanese Yen ("JPY") remained strong during the period; it was insufficient to offset all the negative impacts. The Group has committed to controlling operating expenses as well as enhancing cost-effectiveness to minimize the adverse impact brought by objective factors.

FUTURE PROSPECTS

Although China is sustained steady and rapid economic growth, the driving force pulling the economy has gradually shifted to domestic demand and high value-added services sectors. Last year, PRC "12.5" National plan initially established the goal of the software industry. Until 2015, the revenue from China's software services industry will grow more than 20% per annum, accounting for more than 20% in the total revenue of electronic information industry. In addition, the PRC central government in the "new 18 file" also increase supports to software service enterprises through financing and implementing tax incentives to encourage PRC's software industry marching to the high-end, and to support new business development models in the industry. Under such economic climate, the future of the Group's business development is very favorable. In addition, SinoCom Computer Systems (Beijing) Co., Ltd. was selected by the Chinese National Development and Reform Commission to be one of the focus software enterprises, which evidenced that the efforts spent in the past were recognized by the State. This is very encouraging to all employees, and can also further enhance the reputation of the Group.

However, the entire software industry faces many challenges in the process of moving towards high-end technology services. Training of high-tech talents is an urgent issue to be addressed. The Group will develop new talents for the Company through various internal training programs to cope with the needs of business development. Talent is the most important asset of the Group and is the most significant part in the cost structure. Facing the pressure of increasing wages, the Group will intensify the development efforts and will extend the scale of investment in the second-tier cities to bring the rising cost of human resources under effective control.

Business in Japan is still the Group's development priority in the future. The previous established development policy of focusing in Japanese market will be consistently complied without any changes in the coming year. Through cooperation, joint ventures and other means to maintain close relationships with customers on co-development, the Group has taken an important first step last year. This caused the emergence of breakthrough situation in the Group's traditional software outsourcing business model. Immediately after the reporting period of preceding financial year, the Group and Daiwa Institute of Research Business Innovation Ltd. ("DIR-BI") entered into an agreement to set up a joint venture company, the joint venture company will focus in software development and providing information systems consultancy services. Such businesses may be entrusted from DIR-BI and its associated companies. DIR-BI is our Group's major customer, through this cooperation model, we believe that we can further consolidate the relationship between the Group and our customers to accelerate the pace of business growth, and finally achieve a win-win situation.

Japan remains a major market of the Group. Potential business impact to the Group from the recent earthquakes in Japan is difficult to estimate yet. On the negative side, IT investments in Japan may reduce and hence affecting the volume of business outsourcing to the PRC. On the positive side, customers may be under pressure to cut costs further and hence migrating software development they used to outsourcing locally in Japan to the PRC that the Group will be benefited. Fortunately, the Group's employees in Japan stay safe from the earthquakes.

The business potential in Europe and America markets are huge. European and American companies highly recognized the standards of China's software services. Therefore, the outsourcing market can maintain rapid growth. The Group has been trying to expand this business, but unfortunately there is no substantial progress. In the coming year, the Group will adjust the past development strategy of investing on its own, but will plan to explore the European and American and Chinese markets jointly with partners. Through the Group's established outsourcing software development foundation for years, together with partners' extensive experience in developing European and American markets, we believe that we can complement each other.

Finally, I would like to take this opportunity to extend my sincere thanks to the Board and all staff for their efforts in the past one year, and also appreciate our shareholders and business partners for their consistent trust and support to the Group. The Company and all the staff will continue to work hard and dedicate their efforts to strive for the best returns for shareholders.

By Order of the Board
Wang Zhiqiang
Chairman
Hong Kong, 30 March 2011

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF RESULTS AND OPERATIONS

The Group's consolidated turnover for the year ended 31 December 2010 was approximately HK$609,432,000, representing a decrease of approximately 3.9% when compared to 2009. Turnover derived from outsourcing software development work decreased by approximately 3.5% to approximately HK$587,541,000. Business with the Group's two largest customers recorded different trends of positive and negative growth respectively on year to year basis. Top five customers accounted for approximately 76.2% of the total turnover. Provision of technical support services turnover decreased by approximately 15.3% to approximately HK$21,891,000. Business from the Group's international technical support service business partner in China decreased by 30% as a result of their business strategy adjustment building their own support team rather than to outsourcing.

There were 2,303 full time staff headcounts as at 31 December 2010, a reduction of 247 or 9.7% from 2,550 at beginning of the year. The Group restructured its human resources portfolio letting go of junior engineers but on the contrary recruiting senior engineers. The move was to enhance the Group's competence in more high level development work and to match current business demand trend. It could be perceived as an investment in human resources reserve, labour cost was inevitably higher as a result though. Labour costs increased by approximately 3.5% over that in 2009.

Gross profit for the year decreased to approximately HK$150,549,000 or 21.3% decrease, when compared to the gross profit of HK$191,306,000 in 2009. The Group's gross profit margin was approximately 24.7% in 2010 (2009: 30.2%). Turnover decrease and labour costs increase accounted for the drop in gross margin.

Operating profit and net profit attributable to owners of the Company in 2010 decreased by approximately 30.4% and 33.2% to HK$92,847,000 and HK$69,010,000 respectively. Operating margin and net profit margin in 2010 were approximately 15.2% and 11.3% respectively. Without taking into account of the goodwill impairment in a subsidiary of approximately HK$2,555,000, the Group successfully controlled its administrative expenses to a similar level to that of 2009. Decreased operating profit margin was in line with the gross margin drop. Effective tax rate was approximately 24.9%. Operations related effective tax rate was actually 12.6%. The remaining 3.9% and 8.4% were withholding tax provisions on profits of PRC subsidiaries assuming the Group maintained a 50% payout ratio dividend policy and on capital gain on liquidation of a subsidiary respectively.

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 ended 31 December 2010. During the year, the Group financed its operations and investing activities solely with internally generated cash flows. There were no bank borrowings as at 31 December 2010.

SHARE CAPITAL

The Company repurchased 3,736,000 shares of its listed ordinary shares from the open market during the year ended 31 December 2010. The repurchased shares were cancelled and hence reduced the share capital of the Company.

As at 31 December 2010, the number of shares in respect of which options had been granted and remained outstanding under the Company's share option scheme was 35,606,000 (2009: 41,070,000), representing 3.2% (2009: 3.7%) of the shares of the Company in issue at that date.

PLEDGE OF ASSETS

As at 31 December 2010, the Group had not pledged any of its assets.

EMPLOYEES AND REMUNERATION POLICY

The Group had 2,303 full time staff as at 31 December 2010 (2009: 2,550). Most of them were engineers located in China. There were also 245 employees in Japan, 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 2010, the Group had no material contingent liabilities.

CAPITAL COMMITMENTS

As at 31 December 2010, the Group had no material capital commitments.

DIRECTORS' PROFILE

EXECUTIVE DIRECTORS

Mr Wang Zhiqiang

Mr Wang Zhiqiang (王志強), aged 47, 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 48, 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 56, 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 48, 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 commerce 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 53, 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 43, obtained 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 an independent non-executive director in February 2004.

Directors' Profile

Mr Lee Kit Wah

Mr Lee Kit Wah (李傑華), aged 56, 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 an independent non-executive 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 59, 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 2010.

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 2010 are set out in the consolidated statement of comprehensive income on page 28.

The directors now recommend the payment of a final dividend of HK3.1 cents per share and a special dividend of HK3.9 cents per share to the shareholders on the register of members on 23 May 2011, amounting approximately to HK$77,970,000 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 22 & 24 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 2010, the Company's reserves available for distribution to shareholders was approximately HK$81,999,000, comprising of the contributed surplus of approximately HK$29,412,000 and the retained profit of approximately HK$52,587,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for 76.2% of the total sales for the year and sales to the largest customer included therein amounted to 33%. Purchases from the Group's five largest suppliers accounted for 41.2% of the total purchases for the year and purchases from the largest supplier included therein amounted to 14.2%.

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 2010 or at any time during the year.

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

As at 31 December 2010, 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	50.54%
Mr Wang Zhiqiang	Interest of a controlled corporation	563,000,000 (L)	2	50.54%
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 2010, 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 2010, 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 2010, 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)		50.54%
Wang Xubing	Interest of a controlled corporation	563,000,000(L)		50.54%
Wang Zhiqiang	Interest of a controlled corporation	563,000,000(L)		50.54%
Madam Zhang Yue	Interest of spouse	563,000,000(L)	1	50.54%
Madam Yuan Yue Ling	Interest of spouse	563,000,000(L)	2	50.54%
Matthews International Capital Management, LLC	Beneficial owner	100,462,000(L)		9.02%
Commonwealth Bank of Australia	Beneficial owner	81,334,000(L)		7.30%
FMR LLC	Beneficial owner	77,560,000(L)		6.96%
Nomura Holdings, Inc.	Interest of a controlled corporation	72,356,100(L)		6.50%
Nomura Research Institute, Inc.	Beneficial owner	72,356,100(L)		6.50%

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 2010.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

The Company repurchased 3,736,000 shares of its listed ordinary shares from the open market during the year ended 31 December 2010. The repurchased shares were cancelled and hence reduced the share capital of the Company.

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 24 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 24 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 2010.

CORPORATE GOVERNANCE

During the year ended 31 December 2010, 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.

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 eight 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 2011

CORPORATE GOVERNANCE REPORT

COMMITMENT TO CORPORATE GOVERNANCE

The Company emphasizes on corporate governance and committed to maintaining high standard of corporate governance which is reviewed and strengthened from time to time. The Company has applied and complied with all the provisions under the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing 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 2009 and 30 June 2010 respectively; approved acquisition of additional equity interest in a subsidiary; reviewed and approved the grant of share option; reviewed internal controls taken by the Group; and other significant operational and financial matters.

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

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)	4/4
Mr Wang Xubing (President)	4/4
Dr Shi Chongming	4/4
Mr Siu Kwok Leung	4/4
Non-executive director	
Wang Nengguang	4/4
Independent non-executive directors	
Mr Lee Kit Wah	4/4
Professor Liang Neng	4/4
Mr Pang Chor Fu	4/4

* 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 six 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. The 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 ("CEO") should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and 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 2010 have been reviewed by the Audit Committee and audited by the external auditors, Messrs. Deloitte Touche Tohmatsu. For the year ended 31 December 2010, the audit fee was approximately HK$2,861,000 and the non-audit service fee was HK$12,000 (for tax filing). 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
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 independent non-executive directors 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 2010 have been reviewed by the Audit Committee.

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

	Directors' Attendance
Mr Lee Kit Wah	2/2
Professor Liang Neng	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 2010 and had submitted the results of the review and its recommendations and opinions for consideration by the Audit Committee and 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 MEMBERS 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 28 to 86, which comprise the consolidated statement of financial position as at 31 December 2010, 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 information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 of the consolidated financial statements that give a true and fair view 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 2010 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 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December, 2010

	Notes	2010 HK$'000	2009 HK$'000
Revenue	4 & 5	**609,432**	634,470
Cost of services		**(458,883)**	(443,164)
Gross profit		**150,549**	191,306
Administrative expenses		**(87,092)**	(87,399)
Share of loss of an associate		**–**	(48)
Other gains (losses)	6	**29,390**	29,588
Profit before tax		**92,847**	133,447
Income tax expense	8	**(23,101)**	(30,109)
Profit for the year	9	**69,746**	103,338
Other comprehensive income			
Exchange differences arising on translation from functional currency to presentation currency		**14,336**	1,740
Reclassification adjustment on translation difference upon liquidation of a subsidiary		**(2,587)**	–
Other comprehensive income for the year		**11,749**	1,740
Total comprehensive income for the year		**81,495**	105,078
Profit for the year attributable to:			
Owners of the Company		**69,010**	103,354
Non-controlling interests		**736**	(16)
		69,746	103,338
Total comprehensive income attributable to:			
Owners of the Company		**80,631**	105,228
Non-controlling interests		**864**	(150)
		81,495	105,078
Earnings per share			
– Basic	13	**6.18 cents**	9.28 cents
– Diluted	13	**6.17 cents**	9.26 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2010

	Notes	2010 HK$'000	2009 HK$'000
Non-current assets			
Plant and equipment	14	**12,564**	13,376
Goodwill	15	**6,775**	9,078
Other deposits	16	**4,605**	2,056
Available-for-sale investments	7	**–**	–
Deferred tax assets	23	**3,438**	2,921
		27,382	27,431
Current assets			
Trade and other receivables	17	**111,231**	121,161
Amount due from a related party	18	**–**	3,975
Held for trading investments	19	**100**	74
Bank balances and cash	20	**613,978**	593,751
		725,309	718,961
Current liabilities			
Trade and other payables	21	**102,537**	85,283
Amount due to a shareholder	18	**–**	37,000
Tax liabilities		**6,887**	9,357
		109,424	131,640
Net current assets		**615,885**	587,321
		643,267	614,752
Capital and reserves			
Share capital	22	**27,847**	27,868
Reserves		**593,683**	569,345
Equity attributable to owners of the Company		**621,530**	597,213
Non-controlling interests		**4,338**	3,852
Total equity		**625,868**	601,065
Non-current liabilities			
Deferred tax liabilities	23	**17,399**	13,687
		643,267	614,752

The consolidated financial statements on pages 28 to 33 were approved and authorised for issue by the Board of Directors on 30 March 2011 and are signed on its behalf by:

Wang Zhiqiang
DIRECTOR

Wang Xubing
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2010

	Equity 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$'000	Equity attributable to non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2009	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 27)	–	–	–	–	–	–	–	–	–	–	–	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 non-controlling 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
Exchange differences arising on translation from functional currency to presentation currency	–	–	–	–	–	–	–	14,208	–	–	14,208	128	14,336
Liquidation of a subsidiary	–	–	–	–	–	–	–	(2,587)	–	–	(2,587)	–	(2,587)
Profit for the year	–	–	–	–	–	–	–	–	–	69,010	69,010	736	69,746
Total comprehensive income for the year	–	–	–	–	–	–	–	11,621	–	69,010	80,631	864	81,495
Exercise of share options	72	2,227	–	–	–	–	–	–	(496)	–	1,803	–	1,803
Repurchase and cancellation of shares	(93)	(553)	646	–	–	–	–	–	–	(3,396)	(3,396)	–	(3,396)
Recognition of equity-settled share based payments expenses	–	–	–	–	–	–	–	–	1,122	–	1,122	–	1,122
Acquisition of additional equity interest of a subsidiary	–	–	–	–	–	–	–	–	–	28	28	(409)	(381)
Transfer upon forfeiture of share options	–	–	–	–	–	–	–	–	(2,237)	2,237	–	–	–
Contribution from non-controlling interest	–	–	–	–	–	–	–	–	–	–	–	31	31
Dividends recognised as distribution (note 12)	–	–	–	–	–	–	–	–	–	(55,871)	(55,871)	–	(55,871)
Balance at 31 December 2010	27,847	164,663	2,269	10,657	5,078	26,506	2,726	78,195	18,998	284,591	621,530	4,338	625,868

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 of the Company 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 3,736,000 ordinary shares in 2010. The consideration was paid from the distributable profits of the Company pursuant to the approval of the board of directors of the Company. A credit of HK$646,000 arising for the repurchase of shares was transferred to the share redemption reserve in 2010.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2010

	2010 HK$'000	2009 HK$'000
OPERATING ACTIVITIES		
Profit before taxation	**92,847**	133,447
Adjustments for:		
Depreciation of plant and equipment	**5,275**	6,551
Impairment loss on goodwill	**2,555**	–
Interest income	**(5,018)**	(7,713)
Loss on disposal of partial interest in a subsidiary	**–**	284
Loss on disposal of plant and equipment	**301**	233
Release of translation reserve on liquidation of subsidiaries	**(2,587)**	–
Share of loss of an associate	**–**	48
Share-based payment expenses	**1,122**	2,407
Operating cash flows before movements in working capital changes	**94,495**	135,257
Decrease in trade and other receivables	**15,518**	34,253
(Increase) decrease in other deposits	**(2,549)**	3,668
Decrease (increase) in amounts due from related parties	**3,975**	(3,834)
Increase in held for trading investments	**(26)**	(74)
Increase in trade and other payables	**15,889**	4,084
Cash generated from operations	**127,302**	173,354
Tax paid	**(22,567)**	(47,146)
Interest received	**5,018**	7,713
NET CASH FROM OPERATING ACTIVITIES	**109,753**	133,921

Consolidated Statement of Cash Flows

For the year ended 31st December, 2010

	Notes	2010 HK$'000	2009 HK$'000
INVESTING ACTIVITIES			
Purchases of plant and equipment		**(4,399)**	(2,326)
Proceeds from disposal of plant and equipment		**138**	104
Acquisition of a subsidiary	25	**–**	(5,111)
NET CASH USED IN INVESTING ACTIVITIES		**(4,261)**	(7,333)
FINANCING ACTIVITIES			
Dividend paid		**(55,871)**	(111,435)
(Repayment to) advance from a shareholder		**(37,000)**	36,988
Repurchase of shares		**(3,396)**	–
Dividend paid to a non-controlling shareholder		**(2,011)**	–
Acquisition of additional equity interest in a subsidiary	26	**(381)**	–
Proceeds from issue of shares upon exercise of share options		**1,803**	1,038
Proceeds from disposal of partial interest in a subsidiary	27	**–**	2,463
Settlement of consideration in respect of acquisition of additional equity interest in a subsidiary in prior year		**–**	(884)
NET CASH USED IN FINANCING ACTIVITIES		**(96,856)**	(71,830)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**8,636**	54,758
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**593,751**	538,545
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**11,591**	448
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, REPRESENTED BY BANK BALANCES AND CASH		**613,978**	593,751

For the year ended 31st December, 2010

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 (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

New and revised standards, amendments and interpretations applied in the current year

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 27 (Revised 2008)	Consolidated and Separate Financial Statements
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised 2008)	Business Combinations
HK (IFRIC) – Int 17	Distributions of Non-cash Assets to Owners
HK – Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008

Except as described below, the adoption of the new and revised HKFRSs in the current year has had no material effect on the amounts reported in the consolidated financial statements and/or disclosure set out in these consolidated financial statements.

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

HKAS 27 (as revised in 2008) Consolidated and Separate Financial Statements

The application of HKAS 27 (as revised in 2008) has resulted in changes in the Group's accounting policies for changes in ownership interests in subsidiaries of the Group.

Specifically, the revised standard has affected the Group's accounting policies regarding changes in the Group's ownership interests in its subsidiaries that do not result in loss of control. In prior years, in the absence of specific requirements in HKFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under HKAS 27 (as revised in 2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss. Cash flows arising from changes in ownership interests in a subsidiary that do not result in a loss of control shall be classified as cash flows from financing activities.

These changes have been applied prospectively from 1 January 2010 in accordance with the relevant transitional provisions

New and revised standard, amendments and interpretations issued but not yet effective

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

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
HKAS 24 (Revised in 2009)	Related Party Disclosures[6]
HKAS 32 (Amendments)	Classification of Rights Issues[7]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[3]
HKFRS 9	Financial Instruments[4]
HK (IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[6]
HK (IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 July 2010.
3 Effective for annual periods beginning on or after 1 July 2011.
4 Effective for annual periods beginning on or after 1 January 2013.
5 Effective for annual periods beginning on or after 1 January 2012.
6 Effective for annual periods beginning on or after 1 January 2011.
7 Effective for annual periods beginning on or after 1 February 2010.

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

HKFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 Financial Instruments (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss ("FVTPL"). The Group has no financial liabilities that are designated as at FVTPL.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2013 and that the application of the new Standard might have an impact on amounts reported in respect of the Groups' financial.

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.

The principal accounting policies are set out below.

Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated 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 in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries on or after 1 January 2010

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Changes in the Group's ownership interests in existing subsidiaries prior to 1 January 2010

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. 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 adjustment to the non-controlling interests was recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combination

Business combination that took place on or after 1 January 2010

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another standard.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combination (Continued)

Business combinations that took place prior to 1 January 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was measured at 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 met the relevant conditions for recognition were generally recognised at their fair value at the acquisition date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit 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 profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

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. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts and sales related taxes.

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 recognised when it is probable that the economic benefit will flow to the Group and the amount of revenue can be measured reliablely. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

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. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. 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.

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).

From 1 January 2010 onwards, on the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

Goodwill arising on an acquisition of a foreign operation is treated as assets and liabilities of that foreign operation on or after 1 January 2005 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.

Deferred tax is recognised on temporary 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. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those 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, 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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 in 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.

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. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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 any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of impairment loss, if any. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefits costs

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

Leasing

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

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

Financial instruments

Financial assets and financial liabilities are recognised 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 FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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.

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, amount due from a related party 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 be 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).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at 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.

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

- significant financial difficulty of the issuer counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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.

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 instruments

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

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

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.

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

	2010 HK$'000	2009 HK$'000
Outsourcing software development services	**587,541**	608,618
Technical support services	**21,891**	25,852
	609,432	634,470

Revenue from outsourcing software development services and technical support services are net of business tax and local government levies of HK$30,511,000 (2009: HK$31,718,000).

5. 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.

Segment revenues and results

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

Year ended 31 December 2010

	PRC HK$'000	Japan HK$'000	Total HK$'000
Revenue	**33,747**	**575,685**	**609,432**
Cost of services	**(30,439)**	**(427,433)**	**(457,872)**
Gross profit	**3,308**	**148,252**	**151,560**
Administrative expenses	**(1,814)**	**(71,315)**	**(73,129)**
Segment profits	**1,494**	**76,937**	**78,431**
Other gains (losses)			**29,390**
Unallocated corporate expenses			**(14,974)**
Profit before taxation			**92,847**

5. SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

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 (losses)			29,588
Unallocated corporate expenses			(18,467)
Profit before taxation			133,447

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

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 of an associate, other gains (losses), share-based payment expenses, central administration cost, directors' emoluments and impairment loss on goodwill. 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 2010

	PRC HK$'000	Japan HK$'000	Total HK$'000
Segment assets	**419,843**	**188,513**	**608,356**
Unallocated assets			**144,335**
Consolidated total			**752,691**
Segment liabilities	**20,257**	**85,725**	**105,982**
Unallocated liabilities			**20,841**
Consolidated total			**126,823**

At 31 December 2009

	PRC HK$'000	Japan HK$'000	Total 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

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.

- bank balances and cash are allocated to reportable segments based on the location of the bank balances and cash.

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

- liabilities payable to the government department such as tax bureau and social security department are allocated to reportable segments based on the location of the tax bureau and social security department.

Other segment information

Year ended 31 December 2010

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

	PRC HK$'000	Japan HK$'000	Corporate HK$'000	Consolidated HK$'000
Additions to non-current assets (Note)	236	3,934	229	4,399
Depreciation	600	4,401	274	5,275
Loss on disposal of plant and equipment	16	285	–	301

5. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

Year ended 31 December 2009

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

	PRC HK$'000	Japan HK$'000	Corporate HK$'000	Consolidated HK$'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

Note: Non-current assets excluded goodwill, available-for-sale investments and deferred tax assets.

Geographical information

The Group's operations are located in 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	
	2010 **HK$'000**	2009 HK$'000
PRC (country of domicile)	**23,437**	23,486
Japan	**507**	1,024
	23,944	24,510

Note: Non-current assets excluded available-for-sale investments and deferred tax assets.

5. SEGMENT INFORMATION (Continued)

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	
	2010	2009
	HK$'000	HK$'000
Customer A[1]	**204,354**	173,670
Customer B[1]	**173,900**	234,918

[1] Revenue from outsourcing software development services and Japan.

6. OTHER GAINS (LOSSES)

	2010	2009
	HK$'000	HK$'000
Government subsidies	**8,707**	20,119
Gain on sale of held for trading investments	**825**	315
Interest income	**5,018**	7,713
Net foreign exchange gain	**14,211**	858
Reclassification adjustment on translation difference upon liquidation of a subsidiary	**2,587**	–
Others	**597**	583
Impairment loss on goodwill	**(2,555)**	–
	29,390	29,588

Government subsidies include government concession on levies of HK$898,000 (2009: HK$10,039,000), subsidies from local government for the employment of new university graduates of HK$2,657,000 (2009: HK$5,491,000) and for its exports of outsourcing software development services of HK$4,730,000 (2009: 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:

	2010 HK$'000	2009 HK$'000
Unlisted-equity securities	**7,756**	7,048
Provision for impairment	**(7,756)**	(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.

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

8. TAXATION

	2010 HK$'000	2009 HK$'000
Current tax:		
PRC Enterprise Income Tax	**9,297**	18,185
Japan income tax	**6,225**	9,388
Withholding tax on capital gain on liquidation of a subsidiary	**7,804**	–
Overprovision in respect of prior year	**(3,491)**	–
	19,835	27,573
Deferred tax (note 23):		
Current year	**3,266**	2,536
	23,101	30,109

8. TAXATION (Continued)

Under the Law of PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

SinoCom Beijing was recognised as a key software enterprise under the State plan for 2009 and 2010 by relevant PRC government authorities in January 2010 and February 2011, respectively under the EIT 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 2009 and 2010.

Shensoft Computer Technology (Shanghai) Company Limited ("Shensoft Shanghai"), SinoCom Information Technology (Shandong) Limited ("SinoCom Shandong") 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.

Shensoft Shanghai and Dalian SinoCom have been entitled to the tax holidays and concessions since 2006.

SinoCom Shandong applied the unified enterprise income tax rate of 25% for the year ended 31 December 2009. In May 2010, SinoCom Shandong obtained an approval from the tax bureau in Shandong that it is entitled to the above tax holiday and concession starting from 2009.

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.

SinoCom Holdings Japan Co., Ltd., a subsidiary incorporated in Japan, was liquidated during the year ended 31 December 2010 and has provided a withholding tax of HK$7,804,000 on capital gain arising from liquidation pursuant to the tax laws in Japan.

8. TAXATION (Continued)

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% (2009: 18%) on the portion of taxable income not exceeding Japanese Yen ("JPY") 8,000,000 (equivalent to approximately HK$764,000, 2009: HK$670,000) and 30% (2009:30%) 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% (2009: 2.95%) on the portion of taxable income not exceeding JPY4,000,000 (equivalent to approximately HK$382,000, 2009: HK$335,000), 4.365% (2009: 4.365%) on the portion of taxable income in excess of JPY4,000,000 but not exceeding JPY8,000,000 and 5.78% (2009: 5.78%) 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$7,000, 2009: HK$6,000) to JPY200,000 (equivalent to approximately HK$19,000, 2009: HK$17,000), depending on the headcount and capital of the entities.

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

	2010	2009
	HK$'000	HK$'000
Profit before taxation	**92,847**	133,447
Taxation at the applicable PRC Enterprise Income Tax rate of 25% (2009: 25%)	**23,212**	33,362
Tax effect of expenses not deductible in determining taxable profit	**3,319**	6,149
Effect of tax exemption and concessions granted to PRC subsidiaries	**(15,369)**	(19,726)
Withholding tax on capital gain on liquidation of a subsidiary	**7,804**	–
Withholding tax on the profits of PRC subsidiaries	**3,632**	5,440
Tax effect of tax losses not recognised	**2,151**	–
Overprovision in respect of prior year	**(3,491)**	–
Effect of different tax rates of subsidiaries operating in other jurisdiction	**1,843**	4,884
Income tax expenses	**23,101**	30,109

9. PROFIT FOR THE YEAR

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

	2010 HK$'000	2009 HK$'000
Auditors' remuneration	**2,861**	2,611
Depreciation of plant and equipment	**5,275**	6,551
Loss on disposal of plant and equipment	**301**	233
Net foreign exchange gain	**(14,211)**	(858)
Loss on disposal of partial interest in a subsidiary	**–**	284
Staff costs:		
Directors' emoluments (note 10)	**10,757**	11,643
Other staff costs		
– Salaries and other benefits	**368,155**	354,264
– Share-based payment expenses	**1,122**	2,407
– Retirement benefits schemes contributions	**35,556**	33,316
	415,590	401,630

10. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the four (2009: 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
2010					
Salaries and other benefits	**2,058**	**2,058**	**1,256**	**2,015**	**7,387**
Retirement benefits scheme contribution	**33**	**33**	**–**	**104**	**170**
Bonus (Note)	**1,120**	**1,120**	**320**	**640**	**3,200**
Total emoluments	**3,211**	**3,211**	**1,576**	**2,759**	**10,757**
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

10. DIRECTORS' EMOLUMENTS (Continued)

Note: Bonus is determined by the Salary Review 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 (2009: four) were directors of the Company whose emoluments are included in the disclosure in note 10 above. The emoluments of the remaining one (2009: one) individual were as follows:

	2010	2009
	HK$'000	HK$'000
Salaries and other benefits	**906**	1,156
Share-based payment expenses	**–**	148
Retirement benefits schemes contributions	**100**	150
	1,006	1,454

12. DIVIDENDS

During the year ended 31 December 2009, a final dividend of HK6.00 cents per share and a special dividend of HK4.00 cents per share (total dividend of HK$111,435,000) in respect of the financial year ended 31 December 2008 were paid to the shareholders. In respect of the financial year ended 31 December 2009, a final dividend of HK5.0 cents per share (total dividend of HK$55,871,000) was declared on 18 May 2010 and was paid to the shareholders during the year ended 31 December 2010.

In respect of the financial year ended 31 December 2010, the directors of the Company propose a final dividend of HK3.1 cents per share and a special dividend of HK3.9 cents per share. The dividends are 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:

	2010	2009
	HK$'000	HK$'000
Earnings		
Profit for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share	**69,010**	103,354

Number of shares

	2010	2009
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,116,452**	1,113,968
Effect of dilutive potential ordinary shares: Share options issued by the Company	**2,342**	1,952
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,118,794**	1,115,920

14. PLANT AND EQUIPMENT

	Office equipment HK$'000	Motor vehicles HK$'000	Leasehold improvements HK$'000	Total HK$'000
COST				
At 1 January 2009	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
Exchange adjustments	1,176	296	131	1,603
Additions	3,268	308	823	4,399
Disposals	(3,591)	–	(1,121)	(4,712)
At 31 December 2010	28,007	7,199	2,668	37,874
ACCUMULATED DEPRECIATION				
At 1 January 2009	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
Eliminated on disposals	(2,382)	–	(2,330)	(4,712)
At 31 December 2009	16,588	4,518	2,102	23,208
Exchange adjustments	792	232	76	1,100
Provided for the year	3,758	782	735	5,275
Eliminated on disposals	(3,213)	–	(1,060)	(4,273)
At 31 December 2010	17,925	5,532	1,853	25,310
CARRYING VALUES				
At 31 December 2010	10,082	1,667	815	12,564
At 31 December 2009	10,566	2,077	733	13,376

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 2009	9,064
Exchange adjustments	14
At 31 December 2009	9,078
Exchange adjustments	316
At 31 December 2010	9,394
Impairment	
At 1 January 2009 and 31 December 2009	–
Exchange adjustments	64
Impairment loss recognised during the year	2,555
At 31 December 2010	2,619
Carrying values	
At 31 December 2010	6,775
At 31 December 2009	9,078

15. GOODWILL (Continued)

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

	2010	2009
	HK$'000	HK$'000
Outsourcing software service		
SinoCom Shensoft Holdings (BVI) limited ("SinoCom Shensoft")	**6,775**	6,547
SinoCom-Artm Technology Limited ("SinoCom-Artm Technology")	**–**	2,531
	6,775	9,078

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 2010, the Group recognised a full impairment loss of HK$2,555,000 (2009: nil) in relation to goodwill arising on acquisition of SinoCom-Artm Technology. Given its revenue has decreased and it has incurred losses for the past two years, the directors of the Company do not expect its financial performance will improve for the foreseeable future.

The basis of the recoverable amount of the CGU of SinoCom Shensoft and its major underlying assumptions are summarised below:

The recoverable amount of the CGU of SinoCom Shensoft has 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 17% (2009: 18%). Cash flows beyond one-year period are extrapolated using a growth rate of 5% (2009: 6%) for SinoCom Shensoft, 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 CGU's 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 amount of the CGU to exceed the aggregate recoverable amount of the CGU.

16. OTHER DEPOSITS

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

17. TRADE AND OTHER RECEIVABLES

	2010	2009
	HK$'000	HK$'000
Trade receivables	**92,942**	95,843
Other receivables	**7,737**	13,715
Other deposits	**6,054**	7,530
Prepayments	**4,498**	4,073
Total trade and other receivables	**111,231**	121,161

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:

	2010	2009
	HK$'000	HK$'000
0-30 days	**82,868**	83,244
31-60 days	**7,563**	11,369
61-90 days	**191**	567
91-180 days	**581**	663
181-360 days	**1,739**	–
	92,942	95,843

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$2,511,000 (2009: HK$1,229,000) 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 162 days (2009: 107 days).

17. TRADE AND OTHER RECEIVABLES (Continued)

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

	2010 HK$'000	2009 HK$'000
61-90 days	191	566
91-180 days	581	663
181-360 days	1,739	–
	2,511	1,229

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

	2010 HK$'000	2009 HK$'000
JPY	74,814	54,910
HK$	–	122

18. AMOUNTS WITH RELATED PARTIES

	2010 HK$'000	2009 HK$'000
Amount due from a related party	–	3,975
Amount due to a shareholder	–	37,000

The above amounts due from a related party and due to a shareholder were unsecured, interest-free and fully settled during the year ended 31 December 2010.

19. HELD FOR TRADING INVESTMENTS

	2010 HK$'000	2009 HK$'000
Equity securities listed in the PRC at fair value	**100**	74

20. 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 2.25% (2009: 0.0001% to 4.14%) per annum.

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

	2010 HK$'000	2009 HK$'000
United States Dollar ("US$")	**13,859**	16,148
JPY	**163,244**	122,633
HK$	**92,899**	65,573

21. TRADE AND OTHER PAYABLES

	2010 HK$'000	2009 HK$'000
Trade payables	**4,378**	3,890
Wages and salaries payable	**78,654**	68,110
Accruals	**1,273**	697
Other tax payables	**14,209**	7,140
Payable for outstanding consideration for acquisition of additional equity interest in a subsidiary	**196**	196
Other payables	**3,827**	3,239
Dividend payable to non-controlling shareholder of a subsidiary	**–**	2,011
	102,537	85,283

The average credit period of trade payables is 30 to 60 days.

For the year ended 31st December, 2010

21. TRADE AND OTHER PAYABLES (Continued)

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

	2010	2009
	HK$'000	HK$'000
0-30 days	**3,015**	2,405
31-60 days	**1,363**	1,485
	4,378	3,890

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

	2010	2009
	HK$'000	HK$'000
JPY	**23,585**	16,150
HK$	**3,200**	12,652

22. SHARE CAPITAL

	Number of shares	
	'000	HK$'000
Authorised:		
Ordinary shares of HK$0.025 each, at 1 January 2009, 31 December 2009 and 31 December 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
Repurchase and cancellation of shares (Note ii)	(3,736)	(93)
Exercise of share options (Note iii)	2,884	72
At 31 December 2010	1,113,859	27,847

22. SHARE CAPITAL (Continued)

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 (see note 24). These shares rank pari passu with other shares in issue in all respect.

(ii) During the year ended 31 December 2010, the Company repurchased 3,736,000 ordinary shares through The Stock Exchange of Hong Kong Limited as follows:

Month of repurchase	Number of shares	Price per share Highest	Price per share Lowest	Aggregate consideration paid
	'000	HK$	HK$	HK$'000
November	3,736	0.92	0.90	3,396

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 2010, share options to subscribe for 2,884,000 ordinary shares of HK$0.025 each were exercised at HK$0.625 per share (see note 24). These shares rank pari passu with other shares in issue in all respect.

23. DEFERRED TAXATION

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

	Deferred tax liabilities			
	Prepaid expenses	Distributable profits of the PRC subsidiaries	Total	Deferred tax assets
	HK$'000	HK$'000	HK$000	HK$'000
At 1 January 2009	1,098	7,159	8,257	–
Charge (credit) 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)
Charge (credit) to profit and loss for the year	39	3,632	3,671	(405)
Exchange differences	41	–	41	(112)
At 31 December 2010	1,168	16,231	17,399	(3,438)

23. DEFERRED TAXATION (Continued)

At the end of the reporting period, the Group had unused tax losses of HK$5,068,000 (2009: nil) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses of HK$5,068,000 (2009: nil) due to the unpredictability of future profit streams. Tax losses of HK$5,068,000 (2009: nil) will expire in 2017.

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 EIT 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$1,064,000 (2009: HK$7,652,000). 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 EIT 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.

24. 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 2010, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 35,606,000 (2009: 41,070,000), representing 3.20% (2009: 3.68%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Options may be exercised on the date of grant of the share option or after the date on which the share option is granted over a period as the board of directors of the Company 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

Note: On 28 January 2008, 15,750,000 share 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.

24. SHARE OPTION SCHEME (Continued)

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 1/1/2010	Exercised during year	Forfeited during year	Outstanding at 31/12/2010
10/11/2004	7,760,000	(2,884,000)	–	4,876,000
24/01/2006	17,080,000	–	(1,280,000)	15,800,000
28/01/2008	15,030,000	–	(1,300,000)	13,730,000
28/01/2008	1,200,000	–	–	1,200,000
	41,070,000	(2,884,000)	(2,580,000)	35,606,000

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

Date of grant	Outstanding at 1/1/2009	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

24. SHARE OPTION SCHEME (Continued)

The options granted on 10 November 2004 may be exercisable after the vesting period, 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.

The options granted on 24 January 2006 may be exercisable after the vesting period, 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.

24. SHARE OPTION SCHEME (Continued)

The new options granted on 28 January 2008 may be exercisable after the vesting period, during the period from the date of grant, being 28 January 2008 to 27 January 2018 (both days inclusive), in the following manner:

(a) 25% of the options will be exercisable at any time on or after the date of grant up to and including 27 January 2018;

(b) a further 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 28 January 2018;

(c) another 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 28 January 2018; and

(d) the remaining 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 28 January 2018.

The options granted on 28 January 2008 may be exercisable after the vesting period, 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 27 January 2018.

24. SHARE OPTION SCHEME (Continued)

At 31 December 2010, 31,453,500 (2009: 28,685,000) share options are exercisable. The closing price of the Company's shares immediately before 10 November 2004, 24 January 2006, 28 January 2008 and 28 January 2008, the date of grant of options, was HK$2.50, HK$5.55, HK$1.34 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 2010 was HK$1.24 (2009: HK$0.86).

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 new options granted on 28 January 2008 have a fair value of HK$0.70 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.

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

Grant date	**28 January 2008**	**28 January 2008**	**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	6.50 years	6.25 years	4 years
Expected volatility	43%	43%	44%	39%
Expected dividend yield	2.5%	2.5%	2.5%	2.5%
Risk free rate	2.11%	2.11%	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.

24. SHARE OPTION SCHEME (Continued)

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.

The Group recognised the total expense of HK$1,122,000 for the year ended 31 December 2010 (2009: HK$2,407,000) in relation to share options granted by the Company.

25. ACQUISITION OF A SUBSIDIARY

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

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
Trade and other payables	(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 31 December 2009.

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$103,227,000. 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.

26. ACQUISITION OF ADDITIONAL EQUITY INTEREST IN A SUBSIDIARY

In July 2010, the Group acquired a further 2.64% equity interest in an existing non-wholly owned subsidiary, SinoCom Ideas Holdings Limited ("SinoCom Ideas") from a non-controlling shareholder of the subsidiary for a cash consideration of HK$381,000 which was paid in July 2010. SinoCom Ideas is incorporated in the British Virgin Islands and is the holding company of Dalian SinoCom, which is principally engaged in the provision of outsourcing software development services to customers in China. The difference of HK$28,000 between the amount by which the non-controlling interests are adjusted of HK$409,000 and the fair value of the consideration paid HK$381,000 was recognised directly in equity and attributed to the owners of the Company.

27. 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.

28. OPERATING LEASE COMMITMENTS

The Group as lessee

	2010 HK$'000	2009 HK$'000
Minimum lease payments paid under operating leases during the year in respect of office premises	**34,123**	39,035

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:

	2010 HK$'000	2009 HK$'000
Within one year	**26,718**	22,720
In the second to fifth year inclusive	**22,350**	6,819
	49,068	29,539

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.

29. RETIREMENT BENEFITS SCHEMES

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

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

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

	2010	2009
	HK$'000	HK$'000
Retirement benefits contributions made during the year	**35,760**	33,463

As at 31 December 2010, contributions of HK$13,349,000 (2009: HK$8,932,000) due in respect of the year ended 31 December 2010 had not been paid over the schemes.

30. EVENT AFTER THE REPORTING PERIOD

On 28 February 2011, SinoCom DIR Business Innovation Co., Limited ("SinoCom DIR"), a subsidiary established by SinoCom Holdings (BVI) Limited ("SinoCom BVI") in Hong Kong in January 2011, and Daiwa Institute of Research Business Innovation Ltd. ("DIR-BI"), a corporation incorporated under the laws of Japan, entered into a subscription agreement pursuant to which DIR-BI has conditionally agreed to subscribe for, and SinoCom DIR has conditionally agreed to allot and issue to DIR-BI, the subscription shares at a total consideration of JPY1,000,000,000 (equivalent to approximately HK$94,180,000), which will be satisfied by DIR-BI in cash. Upon completion of the subscription, SinoCom DIR will be owned as to 60% by SinoCom BVI and 40% by DIR-BI.

On the same day, the Company, SinoCom BVI and DIR-BI entered into a shareholders' agreement in respect of SinoCom DIR to provide for, among other matters, the basis on which the SinoCom DIR shall be operated and managed, the reorganisation to be completed by the Company to put in place the corporate structure of SinoCom DIR and its subsidiaries, and grant of the options by the Company and SinoCom BVI to DIR-BI.

Details of the above transaction are set out in the Company's announcement dated 28 February 2011.

31. RELATED PARTY TRANSACTIONS

During the year ended 31 December 2009, the Group received revenue from technical support services of HK$467,000 and HK$3,972,000 from an associate and a related party SinoCom Rier Technology (Beijing) Co., Ltd. ("Beijing Rier"), respectively. The revenue from technical support services for the year ended 31 December 2009 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. No related party transaction occurred during the year ended 31 December 2010.

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 27. In addition, a shareholder advanced HK$37,000,000 to the Group in December 2009 and this advance was fully repaid during the year ended 31 December 2010.

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 18.

Compensation of key management personnel

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

	2010	2009
	HK$'000	HK$'000
Short-term benefits	**20,789**	19,988
Share-based payment expenses	**2**	185
Retirement benefits scheme contributions	**984**	786
	21,775	20,959

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

	2010	2009
	HK$'000	HK$'000
Financial assets		
Held for trading investments	100	74
Loans and receivables (including cash and cash equivalents)	714,657	707,284
	714,757	707,358
Financial liabilities		
Liabilities measured at amortised cost	87,055	114,446

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

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	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
US$	**–**	–	**13,859**	16,148
JPY	**23,585**	16,150	**238,058**	177,543
HK$	**3,200**	12,652	**159,957**	65,695

The sensitivity analysis below has been determined based on the exposure to a 5% (2009: 5%) increase and decrease in the functional currencies of respective subsidiaries against the relevant foreign currencies. 5% (2009: 5%) is the sensitivity rate used 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% (2009: 5%) change in foreign currency rates. For a 5% (2009: 5%) strengthening of functional currencies of respective subsidiaries against the relevant foreign currencies, the profit for the year will be decreased. For a 5% (2009: 5%) weakening of functional currencies of respective subsidiaries against relevant foreign currencies, there would be an equal and opposite impact on the profit for the year.

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 US$		Impact of JPY		Impact of HK$	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Profit for the year	**(690)**	(750)	**(7,240)**	(5,165)	**(7,838)**	(2,652)

(ii) Credit risk

As at 31 December 2010, 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.

The Group has concentration of credit risk as 13.9% (2009: 20.4%) and 43.1% (2009: 46.8%) of the total trade receivable was due from the Group's largest customer and the five largest customers respectively.

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

(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.

32. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (Continued)

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

(iii) Liquidity risk (Continued)

The following tables detail the Group's remaining contractual maturity for its financial liabilities which are included in the maturity analysis 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 HK$'000	Total undiscounted cash flows HK$'000	Total carrying amount HK$'000
2010			
Trade payables	**4,378**	**4,378**	**4,378**
Other payables	**82,677**	**82,677**	**82,677**
	87,055	**87,055**	**87,055**
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

(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 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.

32. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (Continued)

(c) Fair value (Continued)

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).

	2010			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Held for trading investments	**100**	**–**	**–**	**100**

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

(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 owners 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 2010, the gearing ratio determined as the proportion of net debt (bank borrowings and advance from a shareholder less cash and cash equivalents) was 0% (2009: 6.2%). 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 2010 and 2009 are as follows:

Name of subsidiary	Place of incorporation and operation	Class of capital held	Proportion ownership interest held by the Company		Principal activities
			2010	2009	
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%**	92%	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	British Virgin Islands	Ordinary shares US$474,671	**100%**	100%	Investment holding
SinoCom Innovative	PRC	Registered capital US$370,000	**100%**	100%	Provision of outsourcing software development and technical support services
SinoCom-Artm Technology	PRC	Registered capital RMB2,500,000	**80%**	80%	Provision of outsourcing software development and technical support services
SinoCom Ideas (Note b)	British Virgin Islands	Ordinary shares HK$3,800,000	**88.16%**	85.52%	Investment holding

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
			2010	2009	
Dalian SinoCom (Note b)	PRC	Registered capital HK$3,200,000	**88.16%**	85.52%	Provision of outsourcing software development and technical support services
Shensoft Shanghai	PRC	Registered capital US$232,000	**100%**	100%	Provision of outsourcing software development and technical support services
SinoCom Global solution	Japan	Registered capital JPY40,000,000	100%	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 and the Company indirectly owns the equity interests of all of the above subsidiaries except SinoCom BVI.

Note a: In November 2009, the Group disposed of an 8% equity interest in SinoCom Japan to Dr. Shi Chongming, a director of the Company as detailed in note 27.

Note b: In July 2010, the Group acquired a 2.64% equity interest of SinoCom Ideas as detailed in note 26.

Note c: None of the subsidiaries had issued any debt securities at 31 December 2010 and 2009.

Note d: 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.