Interim Report 2011

SinoCom Software

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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CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board") of the SinoCom Software Group Limited (the "Company"), I hereby present the unaudited interim report of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2011 (the "Period").

BUSINESS REVIEW

In reviewing the first half of this fiscal year, despite that the global economy is still in the recovery path, the debt crisis in Europe and the raising of debt ceiling in US have brought in further uncertainty. As for Mainland China, Renminbi ("RMB") appreciation and rising inflation prompted the government to adopt a more restrictive monetary policy, which in turn will impact the business environment to a certain extent.

Nevertheless, although the Group is in the challenging operating environment currently, the growth of turnover during the Period can be still maintained steady. In March this year, the most powerful earthquake in the history happened in our major business market, Japan, which hit the country's economy severely. By relying on the strong partnering relationship between the Company and customers, the Group can withstand the rapid changes in the local environment and was immune from any negative impact to our local business.

The rising wage costs, being driven by the acute inflation in Mainland China, together with the shortage of high-tech software development talents have posed serious challenges to the development of the industry. Through continuous integration of organizational structure to maintain an optimal utilization rate, coupled with strict control on cost expenditures, the gross margin for the period could be improved from 22.6% last year to 25.0%. Japanese Yen appreciation also contributed to the gross margin improvement.

FUTURE DEVELOPMENT

Stepping into the second half year, the global financial market became volatile again. It was the first time in the U.S history that an international rating agency lowered the U.S. sovereign credit rating, and the consequential impacts to the financial markets as well as the global economy remained to be seen. The latest economic figures in US indicated the weakening of its economic pace again, which raised the concern to trigger "double dip" type of recession. All these uncertain factors might stifle investment confidence and even affect the global economy.

Therefore, the Group would adopt a prudent business development strategy in the second half year. To further enhance cost-effectiveness, the Group planned to set up branches in the second tier cities to ease the pressure from rising wages and rental costs. On the business expansion side, it is expected that the synergy effect resulted from the set up of a new joint venture company during the Period with Daiwa Institute of Research Business Innovation Ltd. ("DIR-BI") would be reflected gradually in the second half year business results.

In addition, foreign software development industry is entering into an integration stage that only the fittest can survive. A number of software development companies of smaller scale have been eliminated in the fierce competition, but this in turn is conducive to the expansion of our business. I am cautious optimistic on the business outlook in the second half year.

By order of the Board
Wang Zhiqiang
Chairman

Hong Kong, 26 August 2011

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS FOR THE PERIOD

Turnover

Turnover of the Group for the six months ended 30 June 2011 amounted to approximately HK$334.8 million, representing an increase of approximately 13.8% and 6.2%, over the first and second half year in 2010 respectively. Revenue was derived from outsourcing software development services and from technical support services, which accounted for approximately 99.2% and 0.8% of the total revenue respectively. Revenue from these two service segments grew and dropped by 17.3% and 76.6% respectively from the same period last year. Geographical market was divided into Japan and the People's Republic of China (the "PRC") and each accounted for approximately 96.7% and 3.3% respectively. Increased revenue from outsourcing software development services was mainly due to growth of business volume with both of the Group's two largest customers. The major technical support customer abandoned their outsourcing strategy before end of 2010 was the major reason accounted for the drastic decline in technical support revenue. Top five customers accounted for approximately 82.4% of the total revenue. There was no change in the top two customers ranking from same period 2010 that they accounted for approximately 67.4% of the total revenue in aggregate.

Gross profit and cost of services

Gross profit of the Group for the Period amounted to approximately HK$83.6 million, representing approximately an increase of 25.5% over the same period last year. Gross profit margin improvement attributable to a better employee utilization rate and human resources restructuring program implemented was the contributing factor to the increase. Gross profit margin was approximately 25.0% which was higher than the 22.6% achieved same period last year.

Cost of services amounted to approximately HK$251.2 million, representing an increase of approximately HK$23.6 million or 10.4%. Major costs comprised labour costs, rent, travelling, and sub-contracting out. Among which, labour costs increased by approximately HK$17.8 million or 9.7%, i.e. at a rate lower than that of turnover growth at 13.8%. Average manufacturing headcounts during the Period was 2,368, an decrease of 2.5% over that of 2,428 in same period last year. Most of the decreased headcounts were general technicians and interns. Labour cost per average manufacturing head increase by approximately 12.5% for employees during the Period. Labour cost consisted salary, bonus, insurance, and welfare, increased by approximately 9.7% above that of same period last year irrespective the decrease in headcounts. More high level engineers proportionally on the payroll cancelled out the pay cut from reduced headcounts. Due to the reduced headcounts, the Group also sub-contracted to other contractors. Sub-contracting fee amounted for approximately HK$20.1 million, an increase of HK$9.3 million or 87.3% over last year same period.

Other income

Other income included exchange gain, interest income and government subsidies of approximately HK$6.9 million for the Period. Government subsidies were mainly training subsidies under new policies launched to encourage outsourcing software development services industry in PRC which increased from approximately HK$1 million last year same period to HK$2.0 million. The Group earned an exchange gain of approximately HK$0.2 million during the Period, where there was a gain of approximately HK$2.0 million in the same period last year.

Operating expenses

Operating expenses during the Period amounted to approximately HK$51.1 million, an increase of approximately 27.5% over that of HK$40.1 million same period last year. Administrative expenses included rental increments, salary increments and bonus to managerial grade employees and salaries to expatriates of the newly setup joint venture with DIR-BI were the major accounting factors for the increase.

Income tax expenses

During the Period, income tax expenses for all subsidiaries in PRC including the newly set up Joint Venture ("JV") with DIR-BI in Beijing, other than the principal subsidiary, SinoCom Computer System (Beijing) Co., Ltd ("SinoCom Beijing"), and those enjoying tax holidays were provided at 25%. SinoCom Beijing, being qualified as New and High Technical Enterprise, entitled to a more favorable income tax rate at 15% and tax has been therefore provided at 15%. When SinoCom Beijing is recognized as a key software enterprise under the State plan this year, it would further enjoy a lower tax rate at 10%. Over provision will be written back when key software enterprise status is granted. SinoCom Beijing was recognized as such consecutively in the past few years.

Liquidity, financial resources and gearing ratio

Net assets

As at 30 June 2011, the Group recorded total assets of approximately HK$796.1 million which were financed by liabilities of HK$210.6 million, non-controlling interest of HK$3.6 million and equity of HK$581.9 million. The Group's net assets value as at 30 June 2011 decreased by 6.4% to approximately HK$585.6 million as compared to approximately HK$625.9 million as at 31 December 2010.

Liquidity

The Group had a total cash and bank balances of approximately HK$639.2 million as at 30 June 2011 (As at 31 December 2010: approximately HK$614.0 million). The Group did not have any bank borrowings. Current ratio was 3.8 times as at 30 June 2011 (As at 31 December 2010: 6.6 times).

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

Pledge of Asset
As at 30 June 2011, the Group did not pledge any of its assets to obtain banking facilities nor have any charge on its assets (As at 31 December 2010: Nil).

Contingent Liabilities
As at 30 June 2011, the Group did not have any material contingent liabilities. (As at 31 December 2010: Nil).

OUTLOOK

Downturn of Japan economy after the recent earthquake and radiation leaking disasters did not cause negative impact to the Group. Revenue has been growing, in particular, with the two largest customers. The two customers are consolidating their orders from other suppliers to the Group since setting up their JV with the Group and implementing their "One Made" strategy respectively. Currently, the Group is still under cost pressure of salary inflation, compensation plan to retain and attract high level employees, higher productivity and efficiency requirements from customers. Nevertheless, this pressure has been released to a certain extent after the Group's human resources reorganization. The Group has been recruiting senior engineers as part of its reorganization in human resources pool. In the short term, average cost per head will increase. In the longer term, the Group will equip itself ready for sophisticated projects from top to bottom further strengthening its competitive edge. The Group will adjust its scale organically in accordance with the coming business volume trend. New growth in PRC or in other markets by means of merger and acquisition will be subject to uncertainties as to availability of suitable targets and the timing of completion. Nevertheless, the Group continues to keep a close eye on any acquisition opportunities on sizeable companies.

Employee and Remuneration Policies

As at 30 June 2011, total headcount of the Group reached 2,406 breaking down into 2,225 in China and 181 in Japan. Employees are remunerated based on their performance, work experience and the prevailing market rates. Performance related bonuses are granted on a discretionary basis. Other employee benefits include pension fund, insurance and medical coverage, training programs and participation in the Group's share option scheme.

Share Option Scheme

As at 30 June 2011, there were options for 35,026,000 ordinary shares of HK$0.025 each in the share capital of the Company (the ``Share(s)'') granted by the Company pursuant to the option scheme, as adopted by the shareholders of the Company on 2 April 2004 (the ``Option Scheme''), which were valid and outstanding. No options were lapsed during the six months ended 30 June 2011.

Audit Committee

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

Compliance with the Code on Corporate Governance Practices

The Company is committed to maintaining a high standard of corporate governance. During the accounting period ended 30 June 2011, the Company had met the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (``the Listing Rules'') except A.2.1 that Mr Wang Zhiqiang had been both the Chairman and Chief Executive Officer of the Company. The roles of the Chairman of the Board and the Chief Executive Officer were not separated because, to our belief, the separation might not enhance the Group's efficiency and business operation. The balance of power and authority is ensured by regular discussion and meetings of the Board and active participation of independent non- executive directors. The Board continues to review its practices from time to time with an aim to improve the Group's corporate governance practices so as to meet international best practice.

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

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

DIRECTORS' INTEREST IN SHARES

As at 30 June 2011, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance "SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) of which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

Ordinary shares of HK$0.025 each

(a) Interests in the Company

Name of Director	Capacity/ Nature of interest	No. of shares of the Company	*Notes*	Approximate percentage of shareholding
Mr. Wang Xubing	Interest of a controlled corporation	563,000,000 (L)	1	50.54%
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.

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

(b) Interests in associated corporation of the Company

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

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

Save as disclosed herein, as at 30 June 2011, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

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

As at 30 June 2011, details of substantial shareholders' and other persons' (who are required to disclose their interests pursuant to Part XV of the SFO) interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO are as follows:

(a) Interests in Shares

Name of shareholder	Capacity/ Nature of interest	No. of shares of the Company	*Notes*	Approximate percentage of shareholding
China Way	Beneficial owner	563,000,000 (L)		50.54%
Mr. Wang Xubing	Interest of a controlled corporation	563,000,000 (L)		50.54%
Mr. 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%
FMR LLC	Beneficial owner	77,560,000 (L)		6.96%
Commonwealth Bank of Australia	Beneficial owner	77,182,000 (L)		6.93%
Nomura Holdings, Inc.	Interest of a controlled corporation	72,356,100 (L)		6.50%
Nomura Research Institute Ltd.	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.

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

(b) Short Position in Shares and Underlying Shares

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

		Six months ended 30 June	
	Notes	**2011** **HK$'000** **(unaudited)**	2010 HK$'000 (unaudited)
Revenue	3	**334,799**	294,194
Cost of services		**(251,199)**	(227,574)
Gross profit		**83,600**	66,620
Administrative expenses		**(51,065)**	(40,066)
Other income and gains		**6,924**	8,979
Impairment loss on goodwill		**–**	(2,555)
Profit before taxation		**39,459**	32,978
Taxation	4	**(10,760)**	(12,109)
Profit for the period	5	**28,699**	20,869
Other comprehensive income			
Exchange differences arising on translation from functional currency to presentation currency		**9,741**	4,807
Reclassification adjustment on translation difference upon liquidation of a subsidiary		**–**	(2,587)
Other comprehensive income for the period		**9,741**	2,220
Total comprehensive income for the period		**38,440**	23,089
Profit for the period attributable to:			
Owners of the Company		**28,389**	20,677
Non-controlling interests		**310**	192
		28,699	20,869
Total comprehensive income for the period attributable to:			
Owners of the Company		**38,041**	22,864
Non-controlling interests		**399**	225
		38,440	23,089
Earnings per share	7		
– Basic		**HK2.55 cents**	HK1.85 cents
– Diluted		**HK2.54 cents**	HK1.85 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2011

	Notes	30 June 2011 HK$'000 (unaudited)	31 December 2010 HK$'000 (audited)
Non-current assets			
Plant and equipment	8	**12,947**	12,564
Goodwill		**6,932**	6,775
Other deposits		**6,207**	4,605
Deferred tax assets		**4,517**	3,438
		30,603	27,382
Current assets			
Trade and other receivables	9	**126,107**	111,231
Held-for-trading investments		**231**	100
Bank balances and cash		**639,190**	613,978
		765,528	725,309
Current liabilities			
Trade and other payables	10	**85,102**	102,537
Other deposit	12	**95,861**	–
Tax liabilities		**19,393**	6,887
		200,356	109,424
Net current assets		**565,172**	615,885
Total assets less current liabilities		**595,775**	643,267
Capital and reserves			
Share capital	11	**27,850**	27,847
Reserves		**554,121**	593,683
Equity attributable to owners of the Company		**581,971**	621,530
Non-controlling interests		**3,602**	4,338
Total equity		**585,573**	625,868
Non-current liabilities			
Deferred tax liabilities		**10,202**	17,399
		595,775	643,267

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

	Attributable to owners of the Company												
	Share capital HK$'000	Share premium HK$'000	Share redemption reserve HK$'000 (Note e)	Capital reserve HK$'000 (Note a)	Other reserve HK$'000 (Note b)	General reserve fund HK$'000 (Note c)	Shareholder's contribution HK$'000 (Note d)	Translation reserve HK$'000	Share option reserve HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
For the six months ended 30 June 2010 (unaudited)													
Balance at 1 January 2010	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
Other comprehensive income for the period	-	-	-	-	-	-	-	2,187	-	-	2,187	33	2,220
Profit for the period	-	-	-	-	-	-	-	-	-	20,677	20,677	192	20,869
Total comprehensive income for the period	-	-	-	-	-	-	-	2,187	-	20,677	22,864	225	23,089
Exercise of share options	68	2,117	-	-	-	-	-	-	(472)	-	1,713	-	1,713
Recognition of equity-settled share based payments expenses	-	-	-	-	-	-	-	-	750	-	750	-	750
Contribution from non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	31	31
Transfer	-	-	-	-	-	-	-	-	(1,875)	1,875	-	-	-
Dividends recognised as distribution	-	-	-	-	-	-	-	-	-	(55,871)	(55,871)	-	(55,871)
Balance at 30 June 2010	27,936	165,106	1,623	10,657	5,078	26,506	2,726	68,761	19,012	239,264	566,669	4,108	570,777
For the six months ended 30 June 2011 (unaudited)													
Balance at 1 January 2011	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
Other comprehensive income for the period	-	-	-	-	-	-	-	9,652	-	-	9,652	89	9,741
Profit for the period	-	-	-	-	-	-	-	-	-	28,389	28,389	310	28,699
Total comprehensive income for the period	-	-	-	-	-	-	-	9,652	-	28,389	38,041	399	38,440
Exercise of share options	3	93	-	-	-	-	-	-	(21)	-	75	-	75
Recognition of equity-settled share based payments expenses	-	-	-	-	-	-	-	-	196	-	196	-	196
Acquisition of additional equity interest of a subsidiary	-	-	-	-	-	-	-	-	-	85	85	(1,135)	(1,050)
Transfer	-	-	-	-	-	-	-	-	(317)	317	-	-	-
Dividends recognised as distribution	-	-	-	-	-	-	-	-	-	(77,956)	(77,956)	-	(77,956)
Balance at 30 June 2011	**27,850**	**164,756**	**2,269**	**10,657**	**5,078**	**26,506**	**2,726**	**87,847**	**18,856**	**235,426**	**581,971**	**3,602**	**585,573**

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 SinoCom Computer System (Beijing) Co., Ltd. ("SinoCom Beijing") as share capital of SinoCom Beijing in year 2003.

Note c: In accordance with the law and regulations in the People's Republic of China (the "PRC") on foreign enterprises, PRC subsidiaries of the Company are required to set aside 10% of their net profits, determined under the PRC accounting regulations, to the general reserve funds until the funds aggregate to 50% of their registered capital. In accordance with their articles of association, PRC subsidiaries of the Company may transfer such amount of profits (after taxation) as determined by their board of directors to the general reserve fund before distribution to their shareholders. The general reserve fund is non-distributable and can be used to increase the capital of the PRC subsidiaries. The general reserve fund can also be used to make good future losses.

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

Note e: The Company repurchased an aggregate of 13,288,000 ordinary shares in prior years. The consideration was paid from the distributable profits of the Company pursuant to the approval of the Board of Directors. An aggregate credit of HK$2,269,000 arising from the repurchase of shares was transferred to the share redemption reserve.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2011

		Six months ended 30 June	
	Note	**2011** ***HK$'000*** **(unaudited)**	2010 *HK$'000* (unaudited)
Net cash from operating activities		**3,152**	41,349
Net cash from (used in) investing activities:			
Deposit received	12	**95,861**	–
Proceeds from disposal of plant and equipment		**40**	5
Purchase of plant and equipment		**(2,657)**	(2,090)
		93,244	(2,085)
Net cash used in financing activities:			
Dividends paid		**(77,956)**	(55,868)
Acquisition of additional equity interest in subsidiaries		**(1,246)**	–
Proceeds from issue of shares upon exercise of share options		**75**	1,713
Decrease in amount due to a shareholder		**-**	(37,000)
Dividend paid to non-controlling interest shareholder		**-**	(2,011)
		(79,127)	(93,166)
Net increase (decrease) in cash and cash equivalents		**17,269**	(53,902)
Cash and cash equivalents at beginning of the period		**613,978**	593,751
Effects of foreign exchange rate change		**7,943**	4,715
Cash and cash equivalents at end of the period, represented by bank balances and cash		**639,190**	544,564

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010 except as described below.

In the current interim period, the Group has applied, for the first time, the following new or revised standards, amendments and interpretations ("new or revised HKFRSs") issued by the HKICPA.

HKFRSs (Amendments)	Improvements to HKFRS issued in May 2010
HKAS 24 (Revised 2009)	Related Party Disclosures
HKAS 32 (Amendment)	Classification of Rights Issues
HKFRIC 14 (Amendment)	Prepayments of a Minimum Funding Requirement
HKFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the above new or revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

The Group has not early applied new or revised standards that have been issued but are not yet effective. The following new or revised standards have been issued after the date the consolidated financial statements for the year ended 31 December 2010 were authorized for issuance and are not yet effective:

HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosures of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[2]
HKAS 19 (Revised 2011)	Employee Benefits[1]
HKAS 27 (Revised 2011)	Separate Financial Statements[1]
HKAS 28 (Revised 2011)	Investments in Associate and Joint Venture[1]

[1] Effective for annual periods beginning on or after 1 January 2013
[2] Effective for annual periods beginning on or after 1 July 2012

The directors of the Company anticipate that these new or revised standards will be adopted in the Group's financial statements for the year beginning on 1 January 2013. The directors of the Company are in the process of assessing the potential impact of the adoption of the relevant standards.

3. SEGMENT INFORMATION

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

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

Six months ended 30 June 2011

	PRC *HK$'000*	Japan *HK$'000*	Consolidated *HK$'000*
Segment revenue	**11,150**	**323,649**	**334,799**
Cost of services	**(11,089)**	**(238,249)**	**(249,338)**
Gross profit	**61**	**85,400**	**85,461**
Administrative expenses	**(1,546)**	**(45,251)**	**(46,797)**
Segment (loss) profit	**(1,485)**	**40,149**	**38,664**
Other income and gains			**6,924**
Unallocated corporate expenses			**(6,129)**
Profit before taxation			**39,459**

Six months ended 30 June 2010

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

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

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

4. TAXATION

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
Current tax		
PRC Enterprise Income Tax	**5,802**	885
PRC withholding tax	**8,163**	–
Japan income tax	**5,002**	3,616
Withholding tax on capital gain on liquidation of a subsidiary	**-**	7,804
	18,967	12,305
Deferred tax		
Current period	**(8,207)**	(196)
	10,760	12,109

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 onward except as describe below.

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

SinoCom Shensoft Computer Technology (Shanghai) Company Limited ("Shensoft Shanghai") was recognised as Service Enterprise with Advanced Technology in January 2011 and was subject to income tax at a tax rate of 15% from 2011 to 2013 in accordance with a joint circular of Ministry of Finance, the State Administration of Taxation, the Ministry of Commerce, the Ministry of Science and Technology and the National Development and Reform Commission, Cai Shui No. 63 of 2009.

SinoCom Information Technology (Shandong) Limited (SinoCom Shandong"), a subsidiary of the Company, are eligible for tax holidays and concession as follows:

(a) Exemption for PRC Enterprise Income Tax for two years starting from the respective first profit-making year, and

(b) Followed by a 50% reduction in the next three years.

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

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

SinoCom Holdings Japan Co., Ltd., a subsidiary incorporated in Japan, was liquidated during the six months ended 30 June 2010 and had provided a withholding tax of HK$7,804,000 on capital gain arising from liquidation pursuant to the tax laws in Japan.

4. **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% on the portion of taxable income not exceeding Japanese Yen ("JPY") 8,000,000 (equivalent to approximately HK$763,000, six months ended 30 June 2010: HK$682,000) and 30% on the portion of taxable income in excess of JPY8,000,000. Corporate enterprise tax is calculated at a progressive statutory rate of 2.95% on the portion of taxable income not exceeding JPY4,000,000 (equivalent to approximately HK$381,000, six months ended 30 June 2010: HK$341,000), 4.365% on the portion of taxable income in excess of JPY4,000,000 but not exceeding JPY8,000,000 and 5.78% on the portion of taxable income in excess of JPY8,000,000. Special local corporate tax is calculated at a fixed tax rate of 81% or 148% of corporate enterprise tax, depending on the amount of paid-in capital. Corporate inhabitant tax is calculated at a fixed tax rate of 17.3% or 20.7% of the corporate tax, depending on the amount of the corporate tax per annum, also with a fixed yearly amount from JPY70,000 (equivalent to approximately HK$7,000, six months ended 30 June 2010: HK$6,000) to JPY200,000 (equivalent to approximately HK$19,000, six months ended 30 June 2010: HK$17,000), depending on the headcount and capital of the entities.

Withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred tax liabilities have been accrued at the tax rate of 10% on the expected dividend of about 50% of profit for the period which is determined by the directors of the Company.

5. **PROFIT FOR THE PERIOD**

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

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
Depreciation of plant and equipment	**2,580**	2,560
Impairment losses on trade receivables	**540**	–
Loss on disposal of plant and equipment	**94**	44
Operating lease rentals in respect of premises	**21,115**	19,556
Share-based payments expense	**196**	750
Net foreign exchange gain	**(157)**	(1,937)
Interest income	**(4,467)**	(2,819)
Government subsidies	**(1,962)**	(1,027)

6. **DIVIDEND**

In respect of the financial year ended 31 December 2009, a final dividend of HK5.00 cents per share (total dividend HK$55,871,000) was declared on 18 May 2010. All such dividends were paid to the shareholders during the year ended 31 December 2010.

In respect of the financial year ended 31 December 2010, a final dividend of HK3.10 cents per share and a special dividend of HK3.90 cents per share (total dividend HK$77,956,000) were declared on 23 May 2011. All such dividends were paid to the shareholders during the six months period ended 30 June 2011.

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

7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
Earnings		
Profit for the period attributable to owners of the Company	**28,389**	20,677

	Six months ended 30 June	
	2011	2010
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,113,883**	1,116,209
Effect of dilutive potential ordinary shares: Share options issued by the Company	**1,914**	2,794
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**1,115,797**	1,119,003

8. MOVEMENTS IN PLANT AND EQUIPMENT

During the period, the Group disposed of certain plant and equipment with an aggregate carrying amount of HK$134,000 (six months ended 30 June 2010: HK$49,000) for proceeds of HK$40,000 (six months ended 30 June 2010: HK$5,000), resulting in a loss on disposal of HK$94,000 (six months ended 30 June 2010: HK$44,000). In addition, the Group spent HK$2,657,000 (six months ended 30 June 2010: HK$2,090,000) on additions to plant and equipment.

9. TRADE AND OTHER RECEIVABLES

	30 June 2011	31 December 2010
	HK$'000	*HK$'000*
Trade receivables	**108,339**	92,942
Other receivables	**8,119**	7,737
Other deposits	**5,705**	6,054
Prepayments	**3,944**	4,498
Total trade and other receivables	**126,107**	111,231

9. TRADE AND OTHER RECEIVABLES (continued)

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

	30 June 2011 HK$'000	31 December 2010 HK$'000
0-30 days	**105,988**	82,868
31-60 days	**2,057**	7,563
61-90 days	**3**	191
91-180 days	**172**	581
Over 180 days	**119**	1,739
	108,339	92,942

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

	30 June 2011 HK$'000	31 December 2010 HK$'000
61-90 days	**3**	191
91-180 days	**172**	581
Over 180 days	**119**	1,739
	294	2,511

The Group anticipates a full recovery of these amounts, and therefore no impairment has been recorded against these receivables.

10. TRADE AND OTHER PAYABLES

	30 June 2011 HK$'000	31 December 2010 HK$'000
Trade payables	**6,989**	4,378
Wages and salaries payable	**66,749**	78,654
Accruals	**2,160**	1,273
Other tax payables	**7,127**	14,209
Payable for outstanding consideration for acquisition of additional equity interest in a subsidiary	**–**	196
Other payables	**2,077**	3,827
	85,102	102,537

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

10. TRADE AND OTHER PAYABLES (continued)

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

	30 June 2011 *HK$'000*	31 December 2010 *HK$'000*
0-30 days	**4,853**	3,015
31-60 days	**2,136**	1,363
	6,989	4,378

11. SHARE CAPITAL

	Number of shares *'000*	*HK$'000*
Authorised:		
Ordinary shares of HK$0.025 each, at 1 January 2010, 31 December 2010 and 30 June 2011	4,000,000	100,000
Issued and fully paid:		
At 1 January 2010	1,114,711	27,868
Repurchase and cancellation of shares (Note i)	(3,736)	(93)
Exercise of share options (Note ii)	2,884	72
At 31 December 2010	1,113,859	27,847
Exercise of share options (Note iii)	120	3
At 30 June 2011	1,113,979	27,850

Notes:

(i) During the year ended 31 December 2010, the Company repurchased 3,736,000 ordinary shares through The Stock Exchange of Hong Kong Limited at an aggregated consideration of HK$3,396,000. The shares were subsequently cancelled.

(ii) 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.

(iii) During the six months ended 30 June 2011, share options to subscribe for 120,000 ordinary shares of HK$0.025 each were exercised at HK$0.625 per share.

12. OTHER DEPOSIT

On 28 February 2011, SinoCom DIR Business Innovation Co., Limited ("SinoCom DIR") 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$95,861,000), which was fully paid by DIR-BI in April 2011. SinoCom DIR is a wholly-owned subsidiary established by SinoCom Holdings (BVI) Limited ("SinoCom BVI"), a wholly-owned subsidiary of the Company, in Hong Kong in January 2011. Upon completion of the subscription, SinoCom DIR will be owned as to 60% by SinoCom BVI and 40% by DIR-BI, and SinoCom DIR will be classified as a jointly controlled entity as DIR-BI will have significant veto right in certain of the key financial and operating matters of SinoCom DIR.

12. OTHER DEPOSIT (continued)

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.

As part of the reorganisation mentioned above, SinoCom Shandong shall be transferred to become wholly owned by SinoCom DIR Business Innovation Technology (Beijing) Co., Limited ("SinoCom DIR Beijing"), a wholly owned subsidiary of SinoCom DIR.

Details of the above transaction are set out in the Company's circular dated 8 April 2011.

On 27 April 2011, the above transaction was approved by the Company's shareholders at the Extraordinary General Meeting.

At 30 June 2011, the Company was in the process of completing the legal documents regarding the transfer of all the equity interest of SinoCom Shandong to SinoCom DIR Beijing. As a result, the above transaction was not legally effective and the Group still had a 100% equity interest in SinoCom Shandong at 30 June 2011. Therefore, the consideration of JPY1,000,000,000 (equivalent to HK$95,861,000) received by the Group was presented as a current deposit in the condensed consolidated statement of financial position.

13. SHARE-BASED PAYMENTS

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

Details of specific category of options are as follows:

Date of grant	Vesting period	Exercisable period	Exercise price
10/11/2004	10/11/2004-09/05/2008	10/11/2005-09/11/2014	HK$0.625
24/01/2006	24/01/2006-23/01/2010	24/01/2007-23/01/2016	HK$1.3875
28/01/2008	28/01/2008-27/01/2011	28/01/2008-27/01/2018	HK$1.36
28/01/2008	28/01/2008-27/01/2013	28/01/2009-27/01/2018	HK$1.36

Details of movements of the share options, all of which were granted to the employees of the Group, during the six months ended 30 June 2011 are as follows:

Date of grant	Outstanding at 1/1/2011	Exercised during the period	Forfeited during the period	Outstanding at 30/6/2011
10/11/2004	4,876,000	(120,000)	–	4,756,000
24/01/2006	15,800,000	–	–	15,800,000
28/01/2008	13,730,000	–	(460,000)	13,270,000
28/01/2008	1,200,000	–	–	1,200,000
	35,606,000	(120,000)	(460,000)	35,026,000

13. SHARE-BASED PAYMENTS (continued)

The closing price of the Company's shares immediately before the date on which the options were exercised was HK$0.76.

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

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

14. OPERATING LEASE COMMITMENTS

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

	30 June 2011 ***HK$'000***	31 December 2010 *HK$'000*
Within one year	**38,778**	26,718
In the second to fifth year inclusive	**31,113**	22,350
	69,891	49,068

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

15. RELATED PARTY TRANSACTIONS AND BALANCES

Compensation of key management personnel

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

	Six months ended 30 June	
	2011 ***HK$'000***	2010 *HK$'000*
Salaries and other benefits	**10,756**	9,437
Retirement benefits scheme contributions	**632**	508
	11,388	9,945

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.