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

SinoCom

Interim Report 2012

CONTENTS

CHAIRMEN STATEMENT

On behalf of the Board of Directors (the "Board") of the SinoCom Software Group Limited (the "Company"), we hereby present the unaudited interim report of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2012 (the "Period").

BUSINESS REVIEW

In reviewing the first half of the financial year, the European debt crisis continued to bother the global financial market, the economic recovery of all nations seems to be absent. As for China's economy, hard landing even emerged with weak exports and decreased in fixed investment. In such economic climate, all businesses will inevitably be affected to a certain extent. However, the Company's business is still relatively stable, not being bothered by the slow-down of the objective environment. The overall gross profit margin achieved a moderate growth as compared with the same period last year.

In May this year, the Group's shareholding structure had significant changes. SJI (Hong Kong) Ltd. acquired China Way International Ltd. which holds approximately 40.5% shares of the Company, also proposed a mandatory general offer in cash to all owners of the Company, and becomes the largest shareholdings of the Company's shareholders.

FUTURE DEVELOPMENT

The parent company of SJI (Hong Kong) Ltd. is SJI Inc., a company incorporated in Japan and its shares are listed on the JASDAQ Securities Exchange of the Osaka Stock Exchange. The principal activities of SJI Inc. are IT systems development, software products, and information related products. Through strengthening cooperation between the Company and SJI Inc., the Company may upgrade the sales capability in Japan as well as the upstream software development ability in the future. It was estimated that the cooperation between SJI Inc. and the Company not only can share the talents and resources management, develop new customers together, but will also bring about more development projects in Japan, improvement in the efficiency of Chinese employees and enhancement of corporate brand. In addition, both parties can establish their pioneer position in software development in China and Japan achieving a win-win situation.

Nevertheless, the exploitation of outsourcing software development industry in the Mainland China is still facing great challenges. The shortage of high-end software talents to meet the industry demand, together with the persistent pressure from rising operating costs and wages are the issues need to be resolved. In addition, despite of the dedicated efforts of the central government to suppress speculation in the property market, the pressure from continuous rising rental caused by the genuine demand of commercial and industrial buildings has not yet been released.

In order to reduce operating costs, the Group intends to set up a new company in either the second or third tier city, and will accelerate the pace of business expansion through merger and acquisition. We believe after broadening of the shareholder base of the Group is conducive to exploring new business opportunities in the China market in the future. Looking forward, we hope that through the participation of new expertise in the management team, the Company's competitive strength will be further enhanced. In conclusion, we have full confidence on the business prospect of the Company.

By order of the board

WANG Zhiqiang — *Co-Chairman*

KOTOI Hirofumi — *Co-Chairman*

Hong Kong, 31 August 2012

MANAGEMENT DISCUSSION AND ANALYSIS
OPERATING RESULTS FOR THE PERIOD

Revenue

Revenue of the Group for the six months ended 30 June 2012 amounted to approximately HK$306.8 million, representing a decrease of approximately 8.36% and 12.4%, over the first and second half year in 2011, respectively. Revenue was derived from outsourcing software development services and from technical support services, which accounted for approximately 98.8% and 1.2% of the total revenue, respectively. Discounting outsourcing software development services revenue from certain subsidiaries (the then jointly controlled entities) the same period last year for comparison purpose, revenues from these two service segments grew by 33.6% and 38.6%, respectively. Geographical market was divided into Japan and the People's Republic of China (the "PRC") and each accounted for approximately 95.5% and 4.5%, respectively. Increased revenue from outsourcing software development services was mainly due to growth of business volume with the Group's largest customer, 71.4% increase over same period last year. The newly ranked second largest customer also increased its business with the Group by 56.2%. Increase in technical support revenue was mainly from an European bank. Top five customers accounted for approximately 77.6% of the total revenue. The top two customers accounted for approximately 67.1% of the total revenue in aggregate.

Gross profit and cost of services

Gross profit of the Group for the Period amounted to approximately HK$77.0 million, representing approximately a decrease of 7.9% over the same period last year. The decrease was a direct result of drop in revenue and hence the gross profit thereof. The Group was able to maintain its gross profit margin at 25.1%.

Cost of services amounted to approximately HK$229.8 million, representing a decrease of approximately HK$21.4 million or 8.5%. Major costs comprised labour costs, rent, travelling, and sub-contracting out. Among which, labour costs consisted of salary, bonus, insurance, and welfare, decreased by approximately HK$37.9 million or 18.9%. Average manufacturing headcounts during the Period was 1,528, a decrease of 35.5% over that of 2,368 in same period last year due to disposal of certain subsidiaries (the then jointly controlled entities). Labour cost per average manufacturing head increase by approximately 25.7% for employees during the Period. Percentage decrease in labour cost was not in proportion to the percentage decrease in headcounts was a result of increase of labour cost per average manufacturing headcount. Due to the reduced headcounts, the Group also sub-contracted to other contractors. Sub-contracting fee amounted for approximately HK$44.5 million, an increase of HK$24.4 million or 121.2% over last year same period.

Liquidity, financial resources and gearing ratio

Net assets

As at 30 June 2012, the Group recorded total assets of approximately HK$883.3 million which were financed by liabilities of HK$128.3 million, non-controlling interest of HK$4.3 million and equity of HK$750.7 million. The Group's net assets value as at 30 June 2012 amounted to approximately HK$755.0 million as compared to approximately HK$756.4 million as at 31 December 2011.

Liquidity

The Group had a total cash and bank balances of approximately HK$748.3 million as at 30 June 2012 (As at 31 December 2011: approximately HK$606.1 million). The Group did not have any bank borrowings. Current ratio was 7.0 times as at 30 June 2012 (As at 31 December 2011: 5.7 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 2012, the Group did not pledge any of its assets to obtain banking facilities nor have any charge on its assets (As at 31 December 2011: Nil).

Contingent Liabilities

As at 30 June 2012, the Group did not have any material contingent liabilities. (As at 31 December 2011: Nil).

OUTLOOK

Despite loss of revenue from the disposed subsidiaries (the then jointly controlled entities), revenue has been growing with the largest customers. The Group is actively soliciting new projects from existing customers and developing new customers. Currently, the Group is still under cost pressure of salary inflation to retain and attract high level employees. Nevertheless, this pressure has been released to a certain extent after the Group's implementation of results linked incentive plan since last year. 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. The Group will also closely monitor any business opportunities in the PRC in order to diversify its geographical market coverage. When such opportunities materialize, the Group will consider any course of actions including by means of merger and acquisition to capture such opportunities.

Employee and Remuneration Policies

As at 30 June 2012, total headcount of the Group reached 1,456 breaking down into 1,291 in China and 165 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 2012, there were options for 29,270,000 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 2012.

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 2012, 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 Co-Chairman and Chief Executive Officer of the Company. The roles of the Co-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 2012, 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	111,396,000 (L)	1	9.98%
Mr. Wang Zhiqiang	Interest of a controlled corporation	111,396,000 (L)	2	9.98%
Dr. Shi Chongming	Beneficial owner	5,543,200 (L)		0.49%
Mr. Siu Kwok Leung	Beneficial owner	4,280,000 (L)		0.40%

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 111,396,000 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 111,396,000 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 2012, 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 2012, 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	111,396,000 (L)		9.98%
Mr. Wang Xubing	Interest of a controlled corporation	111,396,000 (L)		9.98%
Mr. Wang Zhiqiang	Interest of a controlled corporation	111,396,000 (L)		9.98%
Madam Zhang Yue	Interest of spouse	111,396,000 (L)	1	9.98%
Madam Yuan Yue Ling	Interest of spouse	111,396,000 (L)	2	9.98%
SJI Inc.	Interest of a controlled corporation	451,604,000 (L)		40.47%
SJ Asia Pacific Limited	Interest of a controlled corporation	451,604,000 (L)		40.47%
SJI (Hong Kong) Limited	Beneficial owner	451,604,000 (L)		40.47%
Nomura Holdings, Inc.	Interest of a controlled corporation	72,356,100 (L)		6.49%
Nomura Research Institute Ltd.	Beneficial owner	72,356,100 (L)		6.49%

Notes:

1. Madam Zhang Yue is the wife of Mr. Wang Xubing and is deemed to be interested in the 111,396,000 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 111,396,000 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 2012

	Notes	Six months ended 30 June 2012 HK$'000 (unaudited)	2011 HK$'000 (unaudited)
Revenue	3	**306,802**	334,799
Cost of services		**(229,843)**	(251,199)
Gross profit		**76,959**	83,600
Administrative expenses		**(48,725)**	(51,065)
Gain on disposal of jointly controlled entities	10	**11,073**	–
Other income and gains		**9,109**	6,924
Share of result of an associate		**(935)**	–
Share of results of jointly controlled entities		**10,194**	–
Profit before taxation		**57,675**	39,459
Taxation	4	**(17,436)**	(10,760)
Profit for the period	5	**40,239**	28,699
Other comprehensive income			
Exchange differences arising on translation from functional currency to presentation currency		**(3,705)**	9,741
Total comprehensive income for the period		**36,534**	38,440
Profit for the period attributable to:			
Owners of the Company		**39,555**	28,389
Non-controlling interests		**684**	310
		40,239	28,699
Total comprehensive income for the period attributable to:			
Owners of the Company		**35,871**	38,041
Non-controlling interests		**663**	399
		36,534	38,440
Earnings per share	7		
– Basic		**HK3.55cents**	HK2.55cents
– Diluted		**HK3.54cents**	HK2.54cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2012

	Notes	30 June 2012 HK$'000 (unaudited)	31 December 2011 HK$'000 (audited)
Non-current assets			
Plant and equipment	8	**11,090**	12,484
Goodwill		**7,072**	7,111
Other deposits		**4,985**	3,097
Deferred tax assets	14	**6,210**	9,017
Interest in an associate	9	**23,632**	–
Interests in jointly controlled entities	10	**–**	157,263
		52,989	188,972
Current assets			
Trade and other receivables	11	**82,069**	103,634
Amount due from a related party	17	**–**	4,072
Bank balances and cash		**748,259**	606,067
		830,328	713,773
Current liabilities			
Trade and other payables	12	**90,330**	107,596
Amount due to a related party	17	**–**	5,261
Tax liabilities		**28,318**	11,665
		118,648	124,522
Net current assets		**711,680**	589,251
		764,669	778,223
Capital and reserves			
Share capital	13	**27,896**	27,850
Reserves		**722,810**	724,879
Equity attributable to owners of the Company		**750,706**	752,729
Non-controlling interests		**4,317**	3,654
Total equity		**755,023**	756,383
Non-current liabilities			
Deferred tax liabilities	14	**9,646**	21,840
		764,669	778,223

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

	Attributable to owners of the Company												
	Share capital HK$'000	Share premium HK$'000	Share redemption reserve HK$'000	Capital reserve HK$'000 (Note a)	Other reserve HK$'000 (Note b)	General reserve fund HK$'000 (Note c)	Share-holder'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 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 of share option reserve upon forfeiture of share options	-	-	-	-	-	-	-	-	(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

	Attributable to owners of the Company												
	Share capital HK$'000	Share premium HK$'000	Share redemption reserve HK$'000	Capital reserve HK$'000 (Note a)	Other reserve HK$'000 (Note b)	General reserve fund HK$'000 (Note c)	Share-holder'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 2012 (unaudited)													
Balance at 1 January 2012	27,850	164,756	2,269	10,657	5,078	27,980	2,726	100,805	16,997	393,611	752,729	3,654	756,383
Other comprehensive income for the period	-	-	-	-	-	-	-	(3,684)	-	-	(3,684)	(21)	(3,705)
Profit for the period	-	-	-	-	-	-	-	-	-	39,555	39,555	684	40,239
Total comprehensive income for the period	-	-	-	-	-	-	-	(3,684)	-	39,555	35,871	663	36,534
Exercise of share options	46	1,433	-	-	-	-	-	-	(319)	-	1,160	-	1,160
Transfer of share option reserve upon forfeiture of share options	-	-	-	-	-	-	-	-	(213)	213	-	-	-
Transfer of reserves	-	-	-	-	-	659	-	-	-	(659)	-	-	-
Release of reserve upon disposal of jointly controlled entities	-	-	-	-	-	-	-	(1,501)	-	1,501	-	-	-
Dividends recognised as distribution	-	-	-	-	-	-	-	-	-	(39,054)	(39,054)	-	(39,054)
Balance at 30 June 2012	27,896	166,189	2,269	10,657	5,078	28,639	2,726	95,620	16,465	395,167	750,706	4,317	755,023

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 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 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.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

	Notes	Six months ended 30 June 2012 HK$'000 (unaudited)	2011 HK$'000 (unaudited)
Net cash from operating activities		**26,906**	3,152
Investing activities:			
Proceeds from disposal of jointly controlled entities	10	**177,626**	–
Proceeds from disposal of available-for-sale investments		**5,212**	–
Proceeds from disposal of plant and equipment		**138**	40
Acquisition of investment in an associate	9	**(24,605)**	–
Purchase of plant and equipment		**(2,558)**	(2,657)
Deposits received		**-**	95,861
Net cash from investing activities		**155,813**	93,244
Financing activities:			
Dividends paid		**(39,054)**	(77,956)
Proceeds from issue of shares upon exercise of share options		**1,160**	75
Acquisition of additional equity interest in subsidiaries		**-**	(1,246)
Net cash used in financing activities		**(37,894)**	(79,127)
Net increase in cash and cash equivalents		**144,825**	17,269
Cash and cash equivalents at beginning of the period		**606,067**	613,978
Effects of foreign exchange rate change		**(2,633)**	7,943
Cash and cash equivalents at end of the period, represented by bank balances and cash		**748,259**	639,190

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

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 as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

In the current interim period, the Group has applied, for the first time, the following amendments to standards issued by the HKICPA.

Amendments to HKFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets

The application of the above amendments to standards 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.

In the current interim period, the Group has applied, for the first time, the following accounting policy.

Investments in associates

An associate is an entity over which the Group 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 condensed consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the condensed consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. 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.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Investments in associates (continued)

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying a mount of the investment.

The requirements of HKAS 39 Financial Instruments: Recognition and Measurement are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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

3. SEGMENT INFORMATION

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

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

Six months ended 30 June 2012

	PRC	Japan	Total
	HK$'000	*HK$'000*	*HK$'000*
Segment revenue	13,894	292,908	306,802
Cost of services	(14,000)	(215,843)	(229,843)
Gross profit	(106)	77,065	76,959
Administrative expenses	(1,135)	(39,791)	(40,926)
Share of results of jointly controlled entities	–	10,194	10,194
Segment (loss) profit	(1,241)	47,468	46,227
Share of result of an associate			(935)
Gain on disposal of jointly controlled entities			11,073
Other income and gains			9,109
Unallocated corporate expenses			(7,799)
Profit before taxation			57,675

3. SEGMENT INFORMATION (continued)

Six months ended 30 June 2011

	PRC *HK$'000*	Japan *HK$'000*	Total *HK$'000*
Segment revenue	11,150	323,649	334,799
Cost of services	(11,089)	(239,945)	(251,034)
Gross profit	61	83,704	83,765
Administrative expenses	(1,546)	(45,251)	(46,797)
Segment (loss) profit	(1,485)	38,453	36,968
Other income and gains			6,924
Unallocated corporate expenses			(4,433)
Profit before taxation			39,459

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' emoluments, share-based payment expenses, share of result of an associate, gain on disposal of jointly controlled entities and other income and gains. 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	
	2012	2011
	HK$'000	*HK$'000*
Current tax		
PRC Enterprise Income Tax	**6,191**	7,549
Japan income tax	**6,773**	5,002
PRC withholding tax	**198**	8,163
Enterprise Income tax on capital gain on disposal of jointly controlled entities	**16,809**	–
	29,971	20,714
Over provision in prior years		
PRC Enterprise Income Tax	**(3,113)**	(1,747)
	26,858	18,967
Deferred tax		
Current period	**(9,422)**	(8,207)
	17,436	10,760

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.

Pursuant to the EIT Law, SinoCom Beijing is recognised as a high and new technology enterprise by the relevant PRC government authorities and SinoCom Beijing was entitled to enjoy a concessionary Enterprise Income Tax of 15% as compared to the unified tax rate of 25% from 2009 to 2011. After the expiry of the tax incentive, income is taxed at the prevailing EIT rate of 25% for the six months ended 30 June 2012.

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.

Under the EIT Law, an income tax of 10% is imposed on the capital gain on disposal of jointly controlled entities when the gain is realised from the tax perspective.

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

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% (six months ended 30 June 2011: 18%) on the portion of taxable income not exceeding Japanese Yen ("JPY") 8,000,000 (equivalent to approximately HK$782,000, six months ended 30 June 2011: HK$763,000) 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% (six months ended 30 June 2011: 2.95%) on the portion of taxable income not exceeding JPY4,000,000 (equivalent to approximately HK$391,000, six months ended 30 June 2011: HK$381,000), 4.365% (six months ended 30 June 2011: 4.365%) on the portion of taxable income in excess of JPY4,000,000 but not exceeding JPY8,000,000 and 5.78% (six months ended 30 June 2011: 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 2011: HK$7,000) to JPY200,000 (equivalent to approximately HK$20,000, six months ended 30 June 2011: HK$19,000), depending on the headcount and capital of the entities.

5. PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
Depreciation of plant and equipment	**2,358**	2,580
Impairment losses on trade receivables	**104**	540
Loss on disposal of plant and equipment	**1,388**	94
Operating lease rentals in respect of premises	**13,590**	21,115
Share-based payments expense	**-**	196
Net foreign exchange loss(gain)	**4,221**	(157)
Interest income from bank balances	**(1,659)**	(590)
Interest income from short term investments	**(6,394)**	(3,877)
Government subsidies	**(680)**	(1,962)

6. DIVIDEND

In respect of the financial year ended 31 December 2010, a final dividend of HK3.1 cents per share and a special dividend of HK3.9 cents per share (total dividend of approximately HK$77,956,000) were declared on 23 May 2011 and were paid to the shareholders during the six months ended 30 June 2011.

In respect of the financial year ended 31 December 2011, a final dividend of HK3.50 cents per share (total dividend of approximately HK$39,054,000) was declared on 22 May 2012. All such dividends were paid to the shareholders during the six months ended 30 June 2012.

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	
	2012	2011
	HK$'000	*HK$'000*
Earnings		
Profit for the period attributable to owners of the Company for the purposes of basic and diluted earnings per share	**39,555**	28,389

	Six months ended 30 June	
	2012	2011
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,114,753**	1,113,883
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	**1,132**	1,914
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**1,115,885**	1,115,797

The computation of diluted earnings per share does not assume the exercise of certain of the Company's share options because the exercise price of those share options was higher than the average market price for shares for both periods.

8. MOVEMENTS IN PLANT AND EQUIPMENT

During the period, the Group disposed of certain plant and equipment with an aggregate carrying amount of HK$1,526,000 (six months ended 30 June 2011: HK$134,000) for proceeds of HK$138,000 (six months ended 30 June 2011: HK$40,000), resulting in a loss on disposal of HK$1,388,000 (six months ended 30 June 2011: HK$94,000). In addition, the Group spent HK$2,558,000 (six months ended 30 June 2011: HK$2,657,000) on additions to plant and equipment.

9. INTEREST IN AN ASSOCIATE

On 6 March 2012, SinoCom Holding (BVI) Limited ("SinoCom BVI"), a wholly owned subsidiary of the Group, entered into a subscription agreement with Tian Long Investment Holding Limited, Good Dragon Investment Limited, Mr, Wang Xubing, Mr. Peng Chor Fu and Mr. Stephen Pang to subscribe for the shares of Gotoura Limited ("Gotoura"). Mr. Wang Xubing, a director of the Company, and Mr. Peng Chor Fu, a former independent non-executive director of the Company, had direct and indirect beneficial interest in Gotoura. Pursuant to the subscription agreement, SinoCom BVI agreed to subscribe for shares of Gotoura, representing approximately 33.5% of the issued share capital of Gotoura as enlarged by the issue of the subscription shares, at a total consideration of RMB20,000,000 (equivalent to approximately HK$24,605,000).

9. INTEREST IN AN ASSOCIATE (continued)

Gotoura is a corporation incorporated in the British Virgin Islands and principally engaged in providing information services for Chinese Citizens travelling abroad. Upon the completion of the subscription took place immediately following signing of the subscription agreement, the Group owns a 33.5% equity interest in Gotoura and Gotoura is accounted for as an associate of the Group.

Further details of the above transaction are set out in the Company's announcement dated 6 March 2012.

Details of the Group's interest in an associate are as follows:

	2012 *HK$'000*
Cost of unlisted investment in an associate	24,605
Share of result	(935)
Exchange adjustment	(38)
	23,632

Interest in an associate as at 30 June 2012 includes business partnership and software technology of HK$3,921,000 (amortised over 5 years) and goodwill of HK$13,141,000.

10. INTERESTS IN JOINTLY CONTROLLED ENTITIES

On 28 February 2011, SinoCom DIR Business Innovation Co., Ltd ("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, which was fully paid by DIR-BI in April 2011. SinoCom DIR is a wholly owned subsidiary established by SinoCom BVI in Hong Kong in January 2011. Upon completion of the subscription, SinoCom DIR is owned as to 60% by SinoCom BVI and 40% by DIR-BI, and SinoCom DIR is classified as a jointly controlled entity as DIR-BI is able to exercise veto rights over strategic financial and operating decisions of SinoCom DIR.

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 should 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 put and call options by the Company and SinoCom BVI to DIR-BI.

In the event that the put option is exercised, the Company or SinoCom BVI is required to acquire the 40% equity interests in SinoCom DIR at fair value. In the event that the call option is exercised, SinoCom BVI is required to sell its 60% equity interests in SinoCom DIR to DIR-BI at fair value. In the opinion of the Company's directors, the fair value of these options is insignificant.

10. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

On 7 May 2012, China Way International Limited, the controlling shareholder of the Company, entered into a sale and purchase agreement with SJI (Hong Kong) Limited in relation to the disposal of 451,604,000 shares of the Company. As the acquisition by SJI (Hong Kong) Limited constituted one of the triggering events of the call option, the call option became exercisable by DIR-BI. On 17 May 2012, DIR-BI served a call option notice to the Company and SinoCom BVI requesting SinoCom BVI to sell its 60% equity interests in SinoCom DIR to DIR-BI.

On 8 June 2012, the Company, SinoCom BVI and DIR-BI entered into an agreement to dispose of the Group's 60% equity interest in SinoCom DIR to DIR-BI with a cash consideration of JPY1,818 million (equivalent to approximately HK$177,626,000). A gain amounting to HK$11,073,000 was recognised upon the completion of the disposal on 28 June 2012.

11. TRADE AND OTHER RECEIVABLES

	30 June 2012 *HK$'000*	31 December 2011 *HK$'000*
Trade receivables	**72,015**	85,669
Other receivables	**5,861**	9,108
Other deposits	**1,496**	4,892
Prepayments	**2,697**	3,965
Total trade and other receivables	**82,069**	103,634

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

	30 June 2012 *HK$'000*	31 December 2011 *HK$'000*
0-30 days	**68,457**	83,641
31-60 days	**1,940**	861
61-90 days	**166**	300
91-180 days	**1,452**	867
	72,015	85,669

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

	30 June 2012 *HK$'000*	31 December 2011 *HK$'000*
61-90 days	**166**	–
91-180 days	**-**	105
	166	105

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

12. TRADE AND OTHER PAYABLES

	30 June 2012 *HK$'000*	31 December 2011 *HK$'000*
Trade payables	**14,513**	13,173
Wages and salaries payable	**64,317**	86,308
Accruals	**1,687**	1,197
Other tax payables	**6,120**	4,236
Other payables	**3,693**	2,682
	90,330	107,596

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

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

	30 June 2012 *HK$'000*	31 December 2011 *HK$'000*
0-30 days	**11,647**	10,113
31-60 days	**2,866**	3,060
	14,513	13,173

13. SHARE CAPITAL

	Number of shares *'000*	*HK$'000*
Authorised:		
Ordinary shares of HK$0.025 each, at 1 January 2011, 30 June 2011, 1 January 2012 and 30 June 2012	4,000,000	100,000
Issued and fully paid:		
At 1 January 2011	1,113,859	27,847
Exercise of share options *(Note i)*	120	3
At 30 June 2011, 1 January 2012	1,113,979	27,850
Exercise of share options *(Note ii)*	1,856	46
At 30 June 2012	1,115,835	27,896

Notes:

(i) During the year ended 31 December 2011, share options to subscribe for 120,000 ordinary shares of HK$0.025 each were exercised at HK$0.625 per share. These shares rank pari passu with other shares in issue in all respect.

(ii) During the six months ended 30 June 2012, share options to subscribe for 1,856,000 ordinary shares of HK$0.025 each were exercised at HK$0.625 per share. These shares rank pari passu with other shares in issue in all respect.

14. DEFERRED TAXATION

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

	Deferred tax liabilities				Deferred tax assets		
	Prepaid expenses	Distributable profit of the PRC subsidiaries	Gain on deemed disposal of subsidiaries	Total	Accrued expenses	Allowance for doubtful debts	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2011	1,168	16,231	-	17,399	(3,438)	-	(3,438)
Reversal upon payment of withholding tax	-	(11,432)	-	(11,432)	-	-	-
Charge (credit) to profit and loss for the year	135	3,157	12,519	15,811	67	(1,606)	(1,539)
Effect of changes in tax rate charged to profit and loss	-	-	-	-	(3,748)	-	(3,748)
Exchange differences	62	-	-	62	(256)	(36)	(292)
At 31 December 2011	1,365	7,956	12,519	21,840	(7,375)	(1,642)	(9,017)
Reversals	-	(198)	(12,519)	(12,717)	-	-	-
(Credit) charge to profit and loss for the year	(660)	1,188	-	528	2,767	-	2,767
Exchange differences	(5)	-	-	(5)	32	8	40
At 30 June 2012	**700**	**8,946**	**-**	**9,646**	**(4,576)**	**(1,634)**	**(6,210)**

15. 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

15. SHARE-BASED PAYMENTS (continued)

Details of movements of the share options, all of which were granted to the employees of the Group, during the six months ended 30 June 2012 are as follows:

Date of grant	Outstanding at 1/1/2012	Exercised during the period	Forfeited during the period	Outstanding at 30/6/2012
10/11/2004	4,756,000	(1,856,000)	–	2,900,000
24/01/2006	14,360,000	–	(400,000)	13,960,000
28/01/2008	12,410,000	–	–	12,410,000
	31,526,000	(1,856,000)	(400,000)	29,270,000

The closing price of the Company's shares immediately before the date on which the options were exercised was HK$0.97.

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

16. OPERATING LEASE COMMITMENTS

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

	30 June 2012 *HK$'000*	31 December 2011 *HK$'000*
Within one year	**25,150**	32,718
In the second to fifth year inclusive	**11,616**	10,986
	36,766	43,704

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

17. RELATED PARTY TRANSACTIONS AND BALANCES

On 6 March 2012, SinoCom BVI, entered into a subscription agreement with Tian Long Investment Holding Limited, Good Dragon Investment Limited, Mr, Wang Xubing, Mr. Peng Chor Fu and Mr. Stephen Pang to subscribe for the shares of Gotoura Limited ("Gotoura"). Mr. Wang Xubing, a director of the Company, and Mr. Peng Chor Fu, a former independent non-executive director of the Company, had direct and indirect beneficial interest in Gotoura. Details of the transaction are disclosed in note 9.

Transactions with an associate and jointly controlled entities of the Group

During the period, the Group had significant transactions with associates and jointly controlled entities of the Group as follows:

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
Income – provision of administrative services to a jointly controlled entity	**1,608**	–
Cost of services – receiving software outsourcing services from a jointly controlled entity	**4,009**	–
Cost of services – receiving travelling and tourism services from an associate	**800**	–

During the six months ended 30 June 2012, the Group transferred plant and equipment with a net carrying value of HK$1,278,000 to a jointly controlled entity at nil consideration.

The following balances were outstanding at the end of the reporting period:

	30 June 2012	31 December 2011
	HK$'000	*HK$'000*
Amount due from a jointly controlled entity	**-**	4,072
Amount due to a jointly controlled entity	**-**	5,261

The ageing for the both the amount due from a jointly controlled entity and amount due to a jointly controlled entity as at 31 December 2011 are within 30 days based on invoice.

Compensation of key management personnel

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

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
Salaries and other benefits	**10,830**	10,756
Retirement benefits scheme contributions	**367**	632
	11,197	11,388

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.