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

2012 Annual Report

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Corporate Information

Board of Directors

Executive Directors

Wang Zhiqiang *(Co-chairman)*
Zuo Jian Zhong *(Co-chairman)*
Kotoi Hirofumi

Non-Executive Directors

Li Jian (re-designated on 30 September 2013)
Wang Xubing
Shi Chongming

Independent Non-Executive Directors

Chui Man Lung, Everett (appointed on 10 September 2013)
Wu Hong (appointed on 10 September 2013)
Yamamoto Yoshimasa
Liang Neng (resigned on 10 September 2013)
Lee Kit Wah (resigned on 10 September 2013)

Company Secretary

Siu Kwok Leung (resigned on 10 October 2013)
Foo Man Yee, Carina (appointed on 10 October 2013)

Chief Financial Officer

Kotoi Hirofumi (resigned on 15 November 2013)
Tang Yau Sing (appointed on 15 November 2013)

Audit Committee

Chui Man Lung, Everett*
Wu Hong
Yamamoto Yoshimasa
Liang Neng (resigned on 10 September 2013)
Lee Kit Wah (resigned on 10 September 2013)

Salary Review Committee

Wu Hong*
Chui Man Lung, Everett
Yamamoto Yoshimasa
Wang Zhiqiang
Liang Neng (resigned on 10 September 2013)
Lee Kit Wah (resigned on 10 September 2013)

Nomination Committee

Wang Zhiqiang*
Lee Kit Wah (resigned on 10 September 2013)
Liang Neng (resigned on 10 September 2013)
Yamamoto Yoshimasa
Chui Man Lung, Everett
Wu Hong

* *Chairman*

Authorised Representatives

Wang Zhiqiang
Siu Kwok Leung (resigned on 10 October 2013)
Foo Man Yee, Carina (appointed on 10 October 2013)

Registered Office

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

Head Office and Principal Place of Business in PRC

1/F., Ya'an International Apartment
2 Jinbao Street, Dongcheng District
Beijing, China

Principal Place of Business in Hong Kong

Unit 1601, 16/F., Shui On Centre
6–8 Harbour Road
Wanchai
Hong Kong

Principal Bankers

Bank of East Asia Limited
Bank of China
Mizuho Corporate Bank (China) Ltd.
China Merchant Bank Co., Ltd.

Solicitor

Baker & Mckenzie

Principal Share Registrar and Transfer Office

Bank of Butterfield International (Cayman) Limited
68 Fort Street, P.O. Box 705
George Town, Grand Cayman
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
26/F., Tesbury Centre
28 Queen's Road East
Hong Kong

Auditor

RSM Nelson Wheeler
Certified Public Accountants

Stock Code

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Website

www.sinocom.cn

Financial Summary

Results

	Year ended 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TURNOVER	**589,806**	684,942	609,432	634,470	657,831
PROFIT BEFORE TAXATION	**15,675**	223,562	92,847	133,447	166,891
TAXATION	**(21,563)**	(36,925)	(23,101)	(30,109)	(35,671)
(LOSS)/PROFIT FOR THE YEAR	**(5,888)**	186,637	69,746	103,338	131,220
(LOSS)/PROFIT ATTRIBUTABLE TO:					
OWNERS OF THE COMPANY	**(6,663)**	186,358	69,010	103,354	130,585
NON-CONTROLLING INTERESTS	**775**	279	736	(16)	635
	(5,888)	186,637	69,746	103,338	131,220
(LOSS)/EARNINGS PER SHARE					
Basic (cents)	**(0.60)**	16.73	6.18	9.28	11.73
Diluted (cents)	**(0.60)**	16.72	6.17	9.26	11.66

Assets and Liabilities

	As at 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**863,908**	902,745	752,691	746,392	721,040
TOTAL LIABILITIES	**(152,124)**	(146,362)	(126,823)	(145,327)	(117,813)
	711,784	756,383	625,868	601,065	603,227
EQUITY ATTRIBUTABLE TO:					
OWNERS OF THE COMPANY	**707,402**	752,729	621,530	597,213	599,975
NON-CONTROLLING INTERESTS	**4,382**	3,654	4,338	3,852	3,252
	711,784	756,383	625,868	601,065	603,227

Chairman's Statement

Dear Shareholders

On behalf of the board (the "Board") of directors (the "Directors") of SinoCom Software Group Limited, we are pleased to present the annual results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2012.

Business Review

In 2012, the European debt crisis continued to plague the global financial market. The economy of mainland China saw increasing downside risks while inflation stayed high. In the second half of the year, there was a marked deterioration in Sino-Japanese relations and the yen depreciated sharply. Such a macro-climate was unfavorable to the business environment. Development of software outsourcing services for the Japanese market has been a focus of the Group. Under the leadership of the Board of Directors as well as the joint efforts of the management and staff, the business maintained a relatively steady growth in the first half of year but experienced some repercussions in the second half. Excluding the impact resulting from the sale of DIR XunHe Business Innovation (Hong Kong) Limited, revenue for the year increased by 8%. Meanwhile the gross profit margin decreased slightly, as compared with last year. Depreciation of the yen also had a big impact on the Group's profits.

In July 2012, SJI (Hong Kong) Limited became a controlling shareholder of the Group. Its parent company, SJI. Inc, and its subsidiaries in the mainland began to explore business cooperation opportunities with the Group. Although nothing noteworthy was achieved during the year, we are looking forward to a breakthrough in discussion next year on areas for potential cooperation, such as customer acquisition and sharing of human resources.

It is expected that the market situation in 2013 will still be complicated and volatile, and the yen is likely to remain under great downward pressure. Therefore the management established a guiding principle of "Go from strength to strength and build a brighter future", which means we should carry on the down-to-earth entrepreneurial spirit of SinoCom and take the opportunity of joining SJI to build a brighter future with a new attitude. The company, its staff and shareholders should grow together. The management has also worked out a set of strategies, which include retaining existing customers and acquiring new customers to increase sales revenue, expanding existing or building new development centres to absorb some downward pressure on the yen as well as the upward pressure on the cost of human resources in major cities, continuing to enforce a policy linking salaries to results to boost the staff's work motivation and efficiency. These strategies are being implemented.

At the same time, in order to obtain more development projects, we continue to strengthen the co-operative relationship between the SJI Group to enhance the company's sales abilities and upstream development capabilities in Japan, to strive for both parties to become a leading software development company in China and Japan in the medium term.

Prospects

Looking ahead, the Group will explore new ideas and seek a new focus for business growth in mainland China. We also hope to enhance our strength in operation and accelerate the development of our business through merger and acquisition. As to foreign exchange risks, we will perform active risk management.

The Board of Directors believes the management will certainly lead the way for everyone in the company to strengthen a customer-oriented development system, capture new market opportunities on an ongoing basis, and meet all the performance indexes.

Appreciation

Last but not least, we, on behalf of the Board of Directors, would like to extend our gratitude to all the staff of the Company for their dedicated efforts in the past year, and would like to thank all shareholders and business partners for their support and trust to the Group.

By Order of the Board
SinoCom Software Group Limited

Wang Zhiqiang	**Zuo Jian Zhong**
Co-Chairman	*Co-Chairman*

Hong Kong, 21 January 2014

Management Discussion and Analysis

Review of Results and Operations

The Group's consolidated turnover for the year ended 31 December 2012 was approximately HK$589,806,000, representing a decrease of approximately 13.9% when compared to 2011. The decrease was mainly attributable to turnover loss on deemed disposal of SinoCom DIR and its subsidiaries and the depreciation of the JYP in which 95.7% of total turnover for the year ended 31 December 2012 was denominated. Turnover generated from Japan decreased by approximately 14.6% from HK$661,278,000 in 2011 to HK$564,546,000 in 2012. However, turnover sourced from the PRC increased by approximately 6.7% to HK$25,260,000. Turnover derived from outsourcing software development work decreased by approximately 13.7% to approximately HK$581,624,000. Top five customers accounted for approximately 78.7% of the total turnover. Provision of technical support services turnover decreased by approximately 25.2% to approximately HK$8,182,000. Turnover from outsourcing software development services and from technical support services accounted for approximately 98.6% and 1.4% of the total turnover respectively.

Average full time production headcounts were 1,566 for the year ended 31 December 2012, a reduction of 457 or 22.6% from that of 2,023 last year. Decreased headcounts were mainly headcounts of SinoCom DIR and its subsidiaries.

Gross profit for the year decreased to approximately HK$130,443,000 or 26.9% decrease, when compared to the gross profit of approximately HK$178,377,000 in 2011. The Group's gross profit margin was approximately 22.1% in 2012 (2011: 26.0%). JPY depreciation and inflated labour cost in PRC accounted for the decrease in gross margin.

Operating profit in 2012 decreased significantly by approximately 85.7% to approximately HK$13,704,000. The decrease in operating profit was mainly attributable to the decrease in gross profit of approximately HK$47,934,000 and the inclusion of exchange loss of approximately HK$35,597,000 in 2012 whereas the exchange gain of approximately HK$4,504,000 in 2011, but offset by the decrease in administrative expenses of approximately HK$11,045,000.

Net loss attributable to owners of the Company was approximately HK$6,663,000 for the year ended 31 December 2012 whereas net profit attributable to owners of the Company was approximately HK$186,358,000 for the year ended 31 December 2011. The decrease in net profit attributable to owners of the Company primarily resulted from the inclusion of gain on deemed disposal of SinoCom DIR amounting to approximately HK$125,192,000 in 2011 and the decrease in operating profit as mentioned above.

Liquidity and Financial Resources

Since inception, the Group has funded its operations through equity funding and operating cash flows and has no bank borrowings. The Group continued to maintain this strong cash generating capability for the year. During the year, the Group financed its operations and investing activities solely with internally generated cash flows. There were no bank borrowings at end of the year.

Share Capital

As at 31 December 2012, the number of shares in respect of which options had been granted and remained outstanding under the Company's share option scheme was 16,390,000 (2011: 31,526,000), representing 1.5% (2011: 2.8%) of the shares of the Company in issue at that date.

Pledge of Assets

As at 31 December 2012, the Group had not pledged any of its assets.

Management Discussion and Analysis

Employees and Remuneration Policy

The Group had 1,652 full time staff as at 31 December 2012 (2011: 1,616). Most of them were engineers located in Mainland China. There were also 169 employees in Japan, most of them were bridged system engineers, worked at customers' locations in Japan. Their remuneration, promotion and salary review are assessed based on job responsibilities, work performance, professional experiences and the prevailing industry practice. The Group maintains social insurance schemes for retirement, unemployment, personal injury and hospitalization for all of its employees in Mainland China. A housing provident fund system has also been implemented for its employees in Mainland China. Staff in Japan are enrolled under the requisite pension fund and health scheme as required by Japanese law.

Foreign Exchange and Currency Risks

Since most of the Group's revenue was generated from software development outsourced from Japan in JPY while expenses were settled in Renminbi ("RMB"), any depreciation of JPY against RMB, will reduce the income of the Group measured in RMB and have an adverse impact on the profitability of the Group. There was no effective hedging tool suitable to reduce this exchange rate exposure in consideration of the monthly recurring nature of JPY revenue from the management's point of view.

Contingent Liabilities

As at 31 December 2012, the Group had no material contingent liabilities.

Capital Commitments

As at 31 December 2012, the Group had no material capital commitments.

Directors and Senior Management Profiles

Executive Directors

Wang Zhiqiang

Mr. Wang Zhiqiang, aged 50, is the Co-chairman of the Board and the chief executive officer of the Group. He has been a member of the senior management since the establishment of Zhongxun Computer System (Beijing) Co., Ltd. (中訊計算機系統(北京)有限公司) ("SinoCom Beijing") since August 1995. Mr. Wang is responsible for the formulation of corporate strategies, and oversees financial and human resources management of the Group. He has over thirty years' experience in the information technology industry. He graduated from the Northern Jiaotong University (北方交通大學) in 1984 and obtained a bachelor's degree in computer studies. Before founding the Group in 1995, he worked in Beijing Oracle Software Systems Co., Ltd. from 1990 to 1994 during which period he was engaged as sales representative, senior sales representative and business manager and was responsible for the sales and marketing of its products.

Zuo Jian Zhong

Mr. Zuo Jian Zhong, aged 45, was appointed as an executive Director of the Company on 18 July 2012. He was appointed as the Co-chairman of the Company on 1 March 2013. He graduated from University of Science and Technology Beijing in 1992. Mr. Zuo is a director of Hua Shen Trading (International) Limited and Petrochemical Engineering Limited in Hong Kong, a director of Lian Di Petrochemical Technology Limited in the People's Republic of China, and a director and the chief executive officer of Lian Di Clean Technology Limited, a company whose shares are quoted on OTC Pink Sheet in the United States of America and approximately 54.55% of the entire issued share capital of which is owned by SJI Inc., a company whose shares are listed on the Tokyo Stock Exchange JASDAQ (Standard) and a controlling shareholder of the Company.

Kotoi Hirofumi

Mr. Kotoi Hirofumi, aged 51, was appointed as an executive Director of the Company on 11 June 2012. He is also vice president and a director of SJI Inc., a company whose shares are listed on Tokyo Stock Exchange JASDAQ (Standard) with stock code 2315. He is mainly responsible for the corporate management of the Group and the daily management of SJI Inc.. SJI Inc. is the ultimate holding company of SJI (Hong Kong) Limited, the controlling shareholder of the Company. Mr. Kotoi obtained his master degree in information engineering in Kyoto University in Japan in 1987. Mr. Kotoi currently holds 27,442 shares of SJI Inc., representing approximately 3.32% of the total issued share capital of SJI Inc.

Non-Executive Directors

Li Jian

Mr. Li Jian, aged 51, was appointed as executive Director of the Company on 11 June 2012. He re-designated as a non-executive Director on 30 September 2013. Mr. Li is also the president of SJI Inc., a company whose shares are listed on Tokyo Stock Exchange JASDAQ (Standard) with stock code 2315, and is mainly responsible for the daily management of SJI Inc.. SJI Inc. is the ultimate holding company of SJI (Hong Kong) Limited, the controlling shareholder of the Company. Mr. Li is also the representative of SinoCom Japan Corporation, a wholly-owned subsidiary of the Company. Mr. Li obtained his master degree in computer science in the University of Electro-Communications in Japan in 1987. In 1990, Mr. Li joined Sun Japan, which later merged with other companies and formed SJI Inc. In March 2013, Mr. Li is also the director of Lian Di Clean Technology Limited, a company whose shares are quoted on OTC Pink Sheet in the United States of America. Mr. Li currently holds 33,840 shares of SJI Inc., representing approximately 4.09% of the total issued share capital of SJI Inc.

Wang Xubing

Wang Xubing , aged 51, re-designated as a non-executive Director of the Company on 18 July 2012. He has over twenty-five years' experience in software development and corporate management. Mr. Wang graduated from Northern Jiaotong University in 1987 with a master's degree in computer studies. Before founding the Group in August 1995, Mr. Wang worked in Japan from 1988 to 1994. During that period, Mr. Wang gained experience in software development and technical management during his employment with TSD Co., Ltd. (テー•エス • デー株式会社 (TSD)) and Japan—China Communication Company Limited (日中コミユニケーシヨンズ株式会社 (JCC)). After returning to the PRC from Japan, Mr. Wang established SinoCom Beijing in 1995 at which time P.R.O. Co., Ltd. held an approximately 77% equity interest in SinoCom Beijing as nominee on his behalf.

Shi Chongming

Dr. Shi Chongming (時崇明), aged 59, is re-designated as non-executive Director on 18 July 2012. He is also an executive Director and the managing director of SinoCom Japan Corporation (日本中訊株式會社). Dr. Shi graduated from Shenyang University of Technology (瀋陽工業大學) in 1982 with a bachelor's degree in electronic engineering. He then obtained a master's degree in engineering from Northeast China Heavy Machinery Institute (東北重型機械學院) in 1984. He then continued his studies in Japan and obtained a doctorate in engineering from Hokkaido University in 1988. In 1991, Dr. Shi worked as the chief engineer in Think Co., Ltd., a software company in Japan. From June 1994 to June 1999, Dr. Shi worked for Sysnauts Co, Ltd as its senior managing director. He joined the Group in July 1999.

Independent Non-Executive Director

Chui Man Lung Everett

Mr. Chui, aged 49, was appointed as an independent non-executive director of the Company on 10 September 2013. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and member of the Institute of Chartered Accountants in England and Wales. Mr. Chui qualified as a Professional Accountant with KPMG, Hong Kong in 1990 and left KPMG in 1993. Before his departure, he was in charge of audits of banks, fashion retailers and manufacturers listed on the Main Board of the Stock Exchange and initial public offering ("IPO") audit for a major national corporation, and also participated in the restructuring of two banking groups. Since then Mr. Chui has been working on various IPOs and pre-IPO projects for various industries in China and Hong Kong before joining as the chief financial officer and company secretary of Yau Lee Holdings Limited (a company listed on the Main Board of the Stock Exchange).

Since 2008, Mr. Chui has been a founding partner of Cen-1 Partners Limited, a firm which provides professional advisory services on company restructuring, merger & acquisition, pre-IPO and fund raising exercises to its clients. Its portfolio of clients includes listed companies and private companies operating in China, Hong Kong, South East Asia and Europe. Mr. Chui was an independent non-executive director of Cosmopolitan International Holdings Limited (a company listed on the Main Board of the Stock Exchange) from 2002 to 2003, an independent non-executive director and chairman of the audit committee of Duoyuan Printing, Inc. (a company listed on the New York Stock Exchange) from October 2010 to March 2013, and is currently an independent non-executive director and chairman of the audit committee of Taung Gold International Limited (a company listed on the Main Board of the Stock Exchange). Mr. Chui holds a Bachelor of Social Sciences (Hons) Degree in Business Economics & Accounting awarded by the University of Southampton in the United Kingdom.

Wu Hong

Mr. Wu Hong, aged 54, was appointed as an independent non-executive director of the Company on 10 September 2013. He currently serves as vice president of Dagang Holdings Group Limited (大港控股集團有限公司). Mr. Wu served as a technological advisor of Peking University Resources Group (北京大學資源集團) from 2004 to 2008. During the same period, he was also the general manager of Xinjiang Peking University Science Park Company Limited (新疆北大科技園有限公司). Prior to this, Mr. Wu served as the general manager of the Japanese branch of U.S. based Netpilot LLC during 2002 to 2004. From 1994 to 2002, Mr. Wu was the division chief assistant, division chief, and department head assistant at Toyota Caelum Inc., a subsidiary of Toyota Motor Corporation. From 1988 to 1991, he served as an investment financial consultant of the Import Department of China Machinery Engineering Import and Export Corporation. Prior to this, Mr. Wu was an assistant researcher at the Research Institute of Automation Technology at the Chinese Academy of Sciences (中國科學院自動化技術研究所) from 1986 to 1988. Mr. Wu graduated from Peking University with a Bachelor Degree in 1983 and a Master's Degree in 1986, both in computer software engineering.

Mr. Yamamoto Yoshimasa

Mr. Yamamoto Yoshimasa, aged 69, was appointed as an independent non-executive director of the Company on 11 June 2012. He is the Chairman of Y's Consulting Limited in Japan and the Chairman of Y's Consulting Limited in Hong Kong. Mr. Yamamoto graduated from the School of Business Administration of Hosei University in Japan in 1967, and obtained the professional qualifications as a certified public consultant and a tax accountant in Japan in 1973. Mr. Yamamoto established 山本公認會計士事務所 (Yamamoto Certified Public Accountants, the predecessor of Y's Consulting Limited) in 1975.

Senior Management

All the Executive Directors are responsible for the various aspects of the business and operation of the Group. These executive Directors are regarded as the members of the senior management team of the Group.

Report of the Directors

The Directors have pleasure in presenting their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2012.

Principal Activities

The principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries are set out in note 35 the consolidated financial statements.

Results and Appropriation

The results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on page 35.

No interim dividend was declared (2011: Nil) and the Directors do not recommend the payment of any final dividend for the year ended 31 December 2012 (2011: approximately HK$39,054,000).

Share Capital

Details of movements of the share capital of the Company during the year ended 31 December 2012 are set out in note 26 to the consolidated financial statements.

Plant and Equipment

Details of movements in the Group's plant and equipment during the year ended 31 December 2012 are set out in note 15 to the consolidated financial statements.

Summary Financial Information

A summary of the published results and assets and liabilities of the Group for the last five financial years is set out on page 3. This summary does not form part of the audited consolidated financial statements.

Reserves

Under the Companies Law of the Cayman Islands, as at 31 December 2012, the contributed surplus and share premium accounts are distributable to the shareholders of the Company provided that immediately following the date on which any dividend is proposed to be distributed, the Company will be able to pay its debts as they fall due in the ordinary course business.

Details of movements in the reserves of the Company and of the Group during the year ended 31 December 2012 are set out in note 34 to the consolidated financial statements and the consolidated statement of changes in equity on page 37 and page 38 respectively.

Major Customers and Suppliers

During the year, sales to the Group's five largest customers accounted for 78.7% of the total sales for the year and sales for the year and sales to the largest customer included therein amounted 62.5%. Purchases from the Group's five largest suppliers accounted for 25.0% of the total purchases for the year and purchases from the largest supplier included therein amounted to 7.0%.

Nomura Research Institute which owns 6.5% of the Company's issued share capital is one of the Group's five largest customers. Save as disclosed, none of directors of the Company or any of their associates or any shareholders (which to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

Save as disclosed above, None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) has any interest in the Group's five largest suppliers.

Directors

The Directors of the Company during the year and up to the date of this report were:

Executive Directors

Mr. Wang Zhiqiang
Mr. Zuo Jian Zhong (appointed on 18 July 2012)
Mr. Kotoi Hirofumi (appointed on 11 June 2012)
Mr. Siu Kwok Leung (resigned on 18 July 2012)

Non-Executive Directors

Mr. Li Jian (appointed on 11 June 2012 and re-designated as non-executive Director on 30 September 2013)
Mr. Wang Xubing (re-designated as non-executive director on 18 July 2012)
Dr. Shi Chongming (re-designated as non-executive director on 18 July 2012)
Mr. Wang Nenguang (retired on 22 May 2012)
Mr. Pang Chor Fu (retired on 22 May 2012)

Independent Non-Executive Directors

Mr. Chui Man Lung, Everett (appointed on 10 September 2013)
Mr. Wu Hong (appointed on 10 September 2013)
Mr. Yamamoto Yoshimasa (appointed on 11 June 2012)
Professor Liang Neng (resigned on 10 September 2013)
Mr. Lee Kit Wah (resigned on 10 September 2013)

Pursuant to Article 87 of the Company's Articles of Association, Mr. Wang Zhiqiang, Mr. Wang Xubing and Dr. Shi Chongming will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Independent Non-Executive Directors' Confirmation

The Company has received Mr. Yamamoto Yoshimasa an annual confirmation of his independence to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rule") and as at the date of this report still considers that he is independent. The Company is unable to obtain the relevant confirmations from Professor Liang Neng and Mr. Lee Kit Wah due to their resignation. Therefore, the Company is unable to fully ascertain their independent.

Directors' Service Contracts

As at 31 December 2012, none of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Emolument Policy

The emolument policy of the employees of the Group is set up by Salary Review Committee on the basis of their merit, qualifications and competence.

The emolument of directors of the Company are decided by Salary Review Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 27 to the consolidated financial statements.

Emoluments of Directors and Five Highest Paid Individuals

Details of the emoluments of the Directors of the Company and the five highest paid individuals of the Group during the year ended 31 December 2012 are set out in note 11 to the consolidated financial statements.

Directors' and Chief Executive's Interests and Short Positions in shares of the Company (the "Shares"), underlying Shares and Debentures

As at 31 December 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 or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) to be recorded in the register required to be kept under section 352 of the SFO or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code. for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"), were as follows:

(a) Interests and short positions in Shares and underlying Shares in the Company

Name of Director	Capacity/ Nature of interests	Number of shares	Notes	Approximate percentage of issued share capital of the Company as at 31.12.2012
Mr. Wang Xubing	Corporate interest	111,396,000 (L)	1	9.98%
Mr. Wang Zhiqiang	Corporate Interests	111,396,000 (L)	2	9.98%
Dr. Shi Chongming	Beneficial owner	5,543,200 (L)		0.49%

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 SFO.

2. These shares are beneficially owned by China Way. By virtue of his 49% shareholding interests 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 SFO.

* As at 31 December 2012, the total issued share capital of the Company amounted to 1,115,835,128 shares

Abbreviations:
"L" stands for long position

(b) Interests in shares of associated corporation of the Company

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

Save as disclosed above, as at 31 December 2012, none of the Directors and the chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) to be recorded in the register required to be kept under section 352 of the SFO or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Share Option Scheme

The Company's share option scheme was adopted pursuant to a resolution passed on 2 April 2004 (the "Scheme") for the primary purpose of providing incentives or rewards of eligible persons as defined in the scheme (including any independent non-executive directors) for their contribution or potential contribution to the Group and will expire on 1 April 2014.

Under the Scheme, the Board may, at its discretion, offer to any employee of the Group, options to subscribe for shares of the Company subject to the terms and conditions stipulated in the Scheme.

(a) Purpose of the Scheme

The Company adopted the Share Option Scheme on 2 April 2004. The purpose of the Scheme is to provide incentives to enable the Board to provide incentives and awards the eligible persons for their contribution or potential contribution to the Group.

(b) Participants of the Scheme

Pursuant to the Scheme, the Company may at its absolute discretion grant options to any employee, contracted celebrity, advisor, consultant, service provider, agent, customer, partner or joint-venture partner of the Company or its subsidiaries (including any director, whether executive or non-executive and whether independent or not, of the Company or its subsidiaries) who is in full-time or part-time employment with the Company or its subsidiaries at the time when an option is granted to such employee, or any person who, in the sole discretion of the Board, have contributed or may contribute to the Group.

(c) Total number of shares available for issue under the Scheme

The total number of shares available for issue under the Scheme is 16,390,000 shares.

The maximum number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company shall not exceed 30% of the total number of shares of the Company in issue from time to time.

(d) Maximum entitlement of each participant

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the total number of shares of the Company in issue, unless approved by the shareholders of the Company in the manner as stipulated in the Scheme.

(e) Time of exercise of options

An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on the date on which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. No minimum period for which the option must be held before it can exercised is specified in the Scheme.

(f) The subscription price per share

The subscription price per share in respect of an option granted under the Scheme is such price as determined by the Board of the Company at the time of the grant of the options, but in any case the subscription price shall not be lower than the higher of:

- the closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange on the date on which the options are offered, which must be a business day;

- the price being the average closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer of the options; and

- the nominal value of a share of the Company on the date of offer.

(g) Payment on acceptance of option

A non-refundable sum of HK$1.00 by way of consideration for the grant of an option is required to be paid by each of the grantee upon acceptance of the granted option.

(h) Remaining life of the Scheme

The Scheme will expire on 1 April 2014 and no further options may be granted but the provisions of the Scheme shall in all other respects remain in force and effect and options which are granted during the life of the Scheme may continue to exercise in accordance with their respective terms of grant.

As at the date of this report, no option had been granted by the Company.

The details of movements in the Company's share options during the year to subscribe for shares of HK$0.025 each in the Company granted under the share option scheme are set out in note 27 to the consolidated financial statements.

Interests and Short Positions in the Shares and underlying Shares of the Substantial Shareholders

As at 31 December 2012, so far as is known to the Directors of the Company, the following persons, not being a Director or the Chief Executive of the Company, have an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO and are recorded in the register kept by the Company under section 336 of SFO:

Name	Capacity	Number of Ordinary Shares	Approximate percentage of total interests in issued capital as at 31.12.2012	Notes
SJI Inc.	Corporate Interest	860,448,918 (L)	77.11%	
SJI Asia Pacific Limited	Corporate Interest	860,448,918 (L)	77.11%	
SJI (Hong Kong) Limited	Beneficiary Interest	860,448,918 (L)	77.11%	
NEC Corporation	Corporate Interest	268,000,000 (L)	24.01%	
NEC Capital Solutions Limited	Corporate Interest	268,000,000 (L)	24.01%	
Risa Partners Inc.	Security Interest	268,000,000 (L)	24.01%	
Mizuho Financial Group Inc.	Corporate Interest	290,000,000 (L)	25.99%	3
China Way	Beneficiary Interest	111,396,000 (L)	9.98%	
Mr. Wang Xubing	Corporate Interest	111,396,000 (L)	9.98%	
Mr. Wang Zhiqiang	Corporate Interest	111,396,000 (L)	9.98%	
Madam Zhang Yue	Spouse Interest	111,396,000 (L)	9.98%	1
Madam Yuan Yue Ling	Spouse Interest	111,396,000 (L)	9.98%	2
Nomura Holdings, Inc.	Corporate Interest	72,356,100 (L)	6.49%	
Nomura Research Institute, Inc.	Beneficiary Interest	72,356,100 (L)	6.49%	

Notes:

1. Madam Zhang Yu is the wife of Mr. Wang Xubing and is deemed to be interested in the 111,396,000 shares in which Wang Xubing is deemed to be interested for the purpose 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 to be interested for purpose of SFO.

3. Mizuho Financial Group Inc. is wholly owned by Mizuho Bank Ltd.

4. As at 31 December 2012, the issued share capital of the Company is 1,115,835,128 shares.

   Abbreviations:
   "L" stands for long position

Save as disclosed above, as at 31 December 2012, the Directors and the chief executive of the Company were not aware of any person who has an interest or short position in the Shares, or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was recorded in the register kept by the Company under section 336 of SFO.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed above, at no time during the year was the Company, any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the directors or the chief executives of the Company or any of their respective spouses or 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.

Directors' and Controlling Shareholders' Interest in Contracts

No contract of significance, to which the Company, any of its holding companies, subsidiaries or fellow subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of or at any time during the year ended 31 December 2012, nor had there been any contract of significance entered into between the Group, and a controlling shareholder of the Company or any of its subsidiaries or for the provision of services to the Group by a controlling shareholder or any of its subsidiaries during the year ended 31 December 2012.

Purchase, Sale or Redemption of the Company's Listed Securities

None of the Company or any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2012.

Competing Interests

As at 31 December 2012, in so far as the Directors were aware, none of the Directors or their respective associates had any interest in a business that competed or was likely to compete with the business of the Group.

Connected Transactions

Save as disclosed herein, during the year ended 31 December 2012 there were no connected transactions or continuing connected transactions of the Company under Chapter 14A of the Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under the Listing Rules.

1. On 6 March 2012, Gotoura Limited ("Gotoura"), SinoCom Holdings (BVI) Limited (a wholly-owned subsidiary of the Company) ("SinoCom BVI"), Tian Long Investment Holding Limited ("Tian Long"), Good Dragon Investment Limited ("Good Dragon"), Mr. Wang Xubing, Mr. Pang Chor Fu and Mr. Stephen Pang entered into a subscription agreement ("Subscription Agreement") pursuant to which SinoCom BVI agreed to subscribe for ("Subscription"), and Gotoura agreed to allot and issue to SimCom BVI, the sum of 25,188 shares of Gotoura ("Subscription Shares"), representing approximately 33.50% of the issued share capital of Gotoura as enlarged by the issue of the Subscription Shares, at a total consideration of RMB20,000,000. Completion of the Subscription took place immediately following the signing of the Subscription Agreement, upon which the total consideration for the Subscription was satisfied in cash by SinoCom BVI.

   The principal business of Gotoura was to provide information services for Chinese citizens travelling abroad, including hotel and flight booking, visa applications as well as information services for travelers. The Subscription presented an investment opportunity for the Group to leverage its information technology know-how and software development experience to diversify into a fast growing and scalable new business domain.

   Prior to the Subscription, Gotoura was owned as to 50% by Tian Long, 34% by Good Dragon and 16% among the employee shareholders. Following completion of the Subscription, Gotoura became owned as to 33.50% by Sincom BVI, 33.25% by Tian Long, 22.61% by Good Dragon and 10.64% among the employee shareholders.

   Pursuant to Rule 14A.13(1)(a) of the Listing Rules, the Subscription Agreement constituted a connected transaction for the Company. Before completion of the Subscription, Tian Long was owned as to 45% by Mr. Wang Xubing and 55% by Mr. Pang Chor Fu, and while Tian Long held a 50% shareholding in Gotoura, Tian Long was the sole director of Gotoura. Hence, Gotoura was a subsidiary of Tian Long.

   At the time the Subscription Agreement was entered into, Mr. Wang Xubing was an executive Director and the controlling shareholder of the Company, and Mr. Pang Chor Fu was an independent non-executive Director. Both of them were connected persons of the Company within the meaning of the Listing Rules. As Mr. Wang Xubing and Mr. Pang Chor Fu each held a shareholding of more than 30% in Tian Long and Gotoura was, before completion of the Subscription, a subsidiary of Tian Long, both Tian Long and Gotoura were, at the time when the Subscription Agreement was entered into, associates of each of Mr. Wang Xubing and Mr. Pang Chor Fu and hence, also connected persons of the Company.

   In addition, Good Dragon was wholly-owned by Mr. Stephen Pang, who was a brother of Mr. Pang Chor Fu. Hence, both Mr. Stephen Pang and Good Dragon were connected persons of the Company under Rule 14A.11(4)(b)(i) and (ii) of the Listing Rules, respectively.

   As the applicable aggregated percentage ratios in respect of the Subscription Agreement was less than 5% but more than 0.1%, the Subscription Agreement is subject to the reporting and announcement requirements but exempted from the independent shareholders' approval requirement of Chapter 14A of the Listing Rules. An announcement in respect of the said connected transaction was made on 6 March 2012.

2. On 9 July 2012, SinoCom Japan Corporation ("SinoCom Japan"), a company incorporated in Japan and is an indirect subsidiary of the Company, entered into a loan agreement with SDI, Inc. ("SDI") pursuant to which SinoCom Japan agreed to grant to SDI an unsecured and committed loan facility of up to ¥2,300,000,000 at an interest rate of 2.0% per annum with maturity date on 28 December 2012 ("SDI Loan"). As at the original maturity date, the SDI Loan remained outstanding and the maturity date was subsequently extended to 28 February 2013, with the interest rate increased to 5.0%.

   On 15 August 2012, SinoCom Japan entered into a loan agreement with Falcon Inc ("Falcon") pursuant to which SinoCom Japan agreed to grant to Falcon an unsecured and committed loan facility of up to ¥1,530,000,000 at an interest rate of 2.0% per annum with maturity on 28 September 2012, and all outstanding sum (including accrued interests) has been repaid in full at maturity.

   On 9 October 2012, SinoCom Japan entered into another unsecured and committed loan agreement with Falcon pursuant to which SinoCom Japan agreed to grant a loan facility of up to ¥500,000,000 at an interest rate of 2.0% per annum with maturity date on 28 December 2012 (as at the original maturity date, the Falcon Loan remained outstanding and the maturity date was subsequently extended to 28 February 2013, with the interest rate increased to 5.0%) (together with the 15 August 2012 loan agreement entered into with Falcon, "Falcon Loan").

   On 15 August 2012, SinoCom Japan also entered into a loan agreement with King Tech Corporation ("King Tech") pursuant to which SinoCom Japan agreed to grant a loan facility of up to ¥400,000,000 at an interest rate of 2.0% per annum with maturity date on 28 December 2012 ("King Tech Loan"). As at the original maturity date, the King Tech Loan remained outstanding and the maturity date was subsequently extended to 28 February 2013, with the interest rate increased to 5.0%.

   The remaining balance of the SDI Loan, Falcon Loan and King Tech Loan ("Japan Loans") have all been fully repaid on 28 February 2013, the extended maturity date. Since then, SinoCom Japan has not entered into any business transaction with SDI, Falcon and King Tech.

   SJI Inc. ("SJI"), a substantial shareholder of the Company, had borrowed various sums of money ("SJI Loans") from each of SDI, Falcon and King Tech. It was subsequently brought to the attention of the Board that (i) Mr. Li Jian and Mr. Kotoi Hirofumi, being the common directors of the Company and SJI, may have had knowledge of the existence of some of the Japan Loans as and when the SJI Loans were created; and (ii) they may also have had certain material information about the SJI Loans. As a result, the Board concluded that the Japan Loans on the one hand, and the SJI Loans on the other hand, were related. SDI, Falcon and King Tech were therefore deemed as connected persons of the Company pursuant to Rule 14A.11(4)(a) of the Listing Rules and the Japan Loans constituted connected transactions of the Company.

   Based on the maximum limit of the facilities provided to SDI and Falcon, the applicable percentage ratios in respect of each of the SDI Loan and the Falcon Loan exceeded 5%. Therefore, the grant of the facility to SDI and Falcon each constituted a non-exempt connected transaction of the Company that should have been subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

   Based on the maximum limit of the facility provided to King Tech, the applicable percentage ratios in respect of the King Tech Loan exceeded 0.1% (but below 5%). Therefore, the grant of the facility to King Tech constituted a connected transaction of the Company and should have been subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Given that the SDI Loan, the Falcon Loan and the King Tech Loan were not disclosed or approved as connected transactions in accordance with the requirements of Chapter 14A of the Listing Rules, the Company was in breach of the disclosure and shareholders' approval requirements in Chapter 14A of the Listing Rules. An announcement regarding the Listing Rules implications of the Loans was made on 23 April 2013.

The Company has since conducted internal control reviews and investigations on the Japan Loans and SJI Loans, details of which are included in the Corporate Governance Report. It was represented to Kroll Associates (Asia) Limited ("Independent Investigator"), an independent investigator engaged by the Company to conduct further investigations concerning the Japan Loans and SJI Loans, that the purpose of the SDI Loan was to invest in a mega solar power plant project in which SDI was involved and required external funding. No investment in such a project was eventually made by the Company.

It was represented to the Independent Investigator that the Falcon Loan had been used to manage Falcon's business and show potential business partners that Falcon had sufficient funds in their deposit account. It was further represented to the Independent Investigator that part of the Falcon Loan had been "inflated" to finance SJI.

In relation to the King Tech Loan, it was represented to the Independent Investigator that its purpose was to assist King Tech in financing a major business deal. An announcement was made by the Company on 4 July 2013 regarding the purpose of the Japan Loans.

On 21 March 2011, the Company and Daiwa Institute of Research Business Innovation Ltd. ("DIR-BI") entered into a master service agreement, pursuant to which the Company has conditionally agreed to, on request, and subject to availability of resources, provide and procure members of the Group to provide the following services (the "Services") to members of the DIR-BI Group:

(a) system engineering services;

(b) programming services;

(c) system consulting services;

(d) operation services for computer utilization systems; and

(e) other services ancillary to or relating to the foregoing.

The price of the Services will be determined by the relevant parties to each individual contract on an arm's length negotiation having regard to the quantity, specifications and/or other conditions of the Services to be provided on the basis of (a) the price at which the relevant member of the Group provides the same or similar service to independent third parties; (b) the price at which any independent third party in the relevant market provides the same or similar service to other independent third parties; or (c) the price determined with reference to industry standards or market practices of the market of the same or similar services.

During the period from 1 January 2012 to 28 June 2012 (the "Period"), individual contracts were entered into between the relevant members of the Group and DIR-BI Group (DIR-BI and its associates), respectively, in respect of the Services provided setting out the specific terms and conditions and such contracts were subject to the terms of the master service agreement and in the form and content acceptable to the Company and DIR-BI. Provision of the Services under those contracts for the Period ("Continuous Connected Transactions") was approximately JPY134 million (equivalent to approximately HK$13 million) in aggregate.

As disclosed in the Circular dated 12 April 2011, the annual cap of the provision of the Services for the Period is JPY3,100 million. The aggregate provision of the Services for the Period was approximately JPY134 million. The Board, including the independent non-executive Directors, has reviewed and confirmed that the Continuing Connected Transactions for the Period were entered into:

i. in the ordinary course of business of the Group;

ii. either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third party; and

iii. in accordance with the master service agreement governing them on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

Pursuant to Rule 14A.38 of the Listing Rules, the Board engaged the auditor of the Company to perform certain agreed upon procedures in respect of the Continuous Connected Transactions and the auditor has reported the factual findings on these procedures to the Board committee.

The auditor of the Company has confirmed to the Board in writing in respect of the Continuous Connected Transactions:

(a) were approved by the Board;

(b) were in accordance with the pricing policy of the Group;

(c) were entered into in accordance with individual contracts, terms of which were consistent to those of master service agreement, governing the transactions; and

(d) did not exceed the relevant cap amount for the Period as set out on the circular dated 12 April 2011.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Public Float

The percentage of the Company's public float fell below 15% since 10 July 2012. The minimum public float of 25% restored on 8 February 2013.

Based on the information that was publicly available to the Company and within the knowledge of its Directors, as at the date of this report, there was sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

Audit Committee

The Company has established an audit committee in compliance with the Listing Rules. The current audit committee comprises of Mr. Chui Man Lung, Everett (chairman), Mr. Wu Hong and Mr. Yamamoto Yoshimasa all of whom are independent non-executive Directors.

The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group, and to review the Company's annual report and half-yearly reports and to provide advices and comments thereon to the Board.

The audit committee has reviewed the Group's annual results for the year ended 31 December 2012, including the accounting principles and practices adopted by the Group.

Corporate Governance

The Company is committed to adopt corporate governance practices. The Company's corporate governance practices are set out in the Corporate Governance Report on page 22 of this annual report.

Auditors

Messrs. Deloitte Touche Tohmatsu, who had acted as the auditors of the Company in the preceding years, were removed as auditors of the Company with effect from 23 December 2013 and Messrs. RSM Nelson Wheeler were appointed as auditors of the Company, following the removal of Deloitte Touche Tohmatsu as auditors of the Company.

The financial statements for the year ended 31 December 2012 have been audited by RSM Nelson Wheeler who will retire and being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company. A resolution will be submitted to the forthcoming annual general meeting of the Company for the re-appointment of Messrs. RSM Nelson Wheeler as auditor of the Company.

On behalf of the Board

Wang Zhiqiang	**Zuo Jian Zhong**
Co-Chairman	*Co-Chairman*

Hong Kong
21 January 2014

Corporate Governance Report

The Company emphasizes on corporate governance and continues to improve its corporate governance practices in a view to maintaining high standard of corporate governance which is reviewed and strengthened from time to time.

Corporate Governance Practices

During the year under review, the Company has applied and complied with most of the applicable provisions as set out in the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) contained in Appendix 14 (the "New CG Code") (collectively referred as the "CG Code") of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited of the Listing Rules (the "Listing Rules"), except for the deviation disclosed herein.

	Code Provision	Deviation	Considered Reason for deviation
A.2.1	The role of chairman and chief executive should be separate.	Mr. Wang Zhiqiang has been both the chairman and the chief executive officer.	The Board considered that vesting the roles of chairman and CEO in the same person facilitates the execution of the Group business strategies and maximizes effectiveness of its operation. Further, as Mr. Kotoi Hirofumi served as co-chairman of the Board from 11 June 2012 to 1 March 2013, following which Mr. Zuo Jian Zhong has served as co-chairman of the Board since 1 March 2013, the Board considered that there is a sufficient balance and division of responsibilities and authority.
A.3.2	The Company should maintain on its website and the Exchange's website an updated list of its directors role and function.	The Company failed to maintain on its website an updated list of its directors role and function.	Due to inadvertent oversight, the Company failed to update itself regarding the latest changes to the CG Code, and failed to maintain the requisite information on the Company website and the Exchange's website.
A.5.6	The Company should have a policy concerning diversity of board members.	The Company failed to establish a Board Diversity Policy.	Due to inadvertent oversight, the Company failed to update itself on the recent changes of CG Code.
A.6.4	The Board should establish written guidelines for relevant employees in respect of securities dealing.	The Company did not have written guidelines for relevant employees in respect of securities dealing.	Due to inadvertent oversight, the Company failed to update itself regarding the latest changes to the CG Code, and failed to prepare relevant written guidelines.

	Code Provision	Deviation	Considered Reason for deviation
A.6.5	The Directors should be provided with training on a regular basis and the training record should be properly maintained.	The Company failed to keep a proper and complete record of training provided to the Directors.	Due to inadvertent oversight, the Company failed to maintain a proper and complete training record.
C.1.2	Management should provide all members of the Board with monthly updates of the Group's business performance.	The Company did not provide all members of the Board with monthly updates of the Group's business performance.	Due to inadvertent oversight, the Company failed to update itself on the recent changes to CG Code.
D.3.1	The Board should establish terms of reference to perform Corporate Governance functions.	The Company failed to establish terms of reference to perform Corporate Governance functions.	Due to inadvertent oversight, the Company failed to update itself on the recent changes to CG Code.
E.1.4	The Board should establish a shareholders' communication policy.	The Company failed to establish a shareholders' communication policy.	Due to inadvertent oversight, the Company failed to update itself on the recent changes to CG Code.

The Company is taking remedial steps to address areas of deviation from the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct for securities transactions and dealing (the "Code of Conduct") by Directors on terms no less exacting than the required standard set out in Appendix 10 to Listing Rule (the "Model Code"). The Company has made specific enquiry of all Directors as to whether they have complied with the required standard set out in the Model Code and the Code of Conduct during the year ended 31 December 2012. Dr. Shi Chongming, an executive Director, advised the Board on 28 March 2012 that he purchased 1,000,000 shares ("Shares") of the Company on 7 October 2011 on the Stock Exchange at a price of HK$0.5 per Share and 500,000 Shares on 10 October 2011 on the Stock Exchange at a price of HK$0.5 per Share.

Save as disclosed above, all the Directors apart from Professor Liang Neng and Mr. Lee Kit Wah, the former independent directors, have confirmed that they have complied with the required standards set out in the Model Code and the Code of Conduct throughout the year ended 31 December 2012. The Company is unable to obtain the relevant confirmations from Professor Liang Neng and Mr. Lee Kit Wah due to their resignation, and therefore is unable to fully ascertain whether the Company has complied with the required standard set out in the Model Code and Code of Conduct through the year ended 31 December 2012.

The Company has provided the required training to Dr. Shi Chongming regarding the securities dealing under Listing Rules.

Corporate Governance Report

Board of Directors

During the year under review (i.e. from 1 January 2012 to 31 December 2012) ("Reporting Period"), the Board consists of Mr. Wang Zhiqiang, Mr. Wang Xubing, Dr. Shi Chongming, Mr. Li Jian, Mr. Kotoi Hirofumi, Mr. Zuo Jian Zhong, Professor Liang Neng, Mr. Lee Kit Wah and Mr. Yamamoto Yoshimasa.

As at the date of this report, the Board currently consists of three executive Directors namely, Mr. Wang Zhiqiang (Co-Chairman), Mr. Zuo Jian Zhong (Co-Chairman) and Mr. Kotoi Hirofumi, three non-Executive Directors namely Mr. Li Jian, Mr. Wang Xubing, Dr. Shi Chongming and three independent non-executive Directors namely Mr. Chui Man Lung, Everett, Mr. Wu Hong and Mr. Yamamoto Yoshimasa. Saved as disclosed above, none of Directors has or maintained any family relationship with any of other Directors.

The Company considers that the Board has the necessary skills and experience appropriate for discharging their duties as directors in the best interest of the Company and that the current board size as adequate for its present operations. Detailed biographies outlining each director's range of specialist experience and suitability for the successful long-term management of the Group can be found in the Section of "Directors and Senior Management's Profile".

During the year, the Chairmen met with the independent non-executive Directors without the executive Directors present.

Chairman and Chief Executive Officer

The Code provision A.2.1 stipulated the roles of chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and CEO should be clearly established and set out in writing.

Mr. Wang Zhiqiang currently assumes the role of both Chairman and Chief Executive Officer (the "CEO") of the Company. The Company considers that the chairman is responsible for the operation of the board and the CEO is responsible for managing the operations of the Group, and the responsibilities are clearly set out in writing and approved by the Board. Mr. Wang Zhiqiang has been both the chairman and CEO of the Company, which deviated from the provisions set out in the Code. Given the Group's current stage of development, the Board considers that vesting the roles of chairman and CEO in the same person facilitates the execution of the Group's business strategies and maximizes effectiveness of its operations. Further, as Mr. Kotoi Hirofumi served as co-chairman of the Board from 11 June 2012 to 1 March 2013, following which Mr. Zuo Jian Zhong has served as co-chairman of the Board since, the Board considers that there is a sufficient balance and division of responsibilities and authority. The Board shall nevertheless review the structure from time to time and shall consider the appropriate adjustment should suitable circumstance arise.

Role and function of the Board and the management

The principal functions of the Board are to make decision on the objectives, strategic plans, budgets and management structure of the Company; to oversee the management of the business and affairs of the Group; to supervise the management of the business and affairs with the objective of enhancing the Company and shareholders' value with the proper delegation of the power to the management for its day-to-day operation of the Company, implementation of the budgets and strategic plans and development of the organization of the Company for implementing the Board's decision. The composition and functions of each Board committee and their major roles and functions are described below. The final decision still rests with the Board unless otherwise provided for in the terms of reference of the relevant committees.

Non-executive Directors

All Non-executive Directors including Independent Non-executive Directors are subject to retirement by rotation and re-election in accordance with the Company's Memorandum and Articles of Association ("M&A") at each annual general meeting.

Independent Non-executive Directors are responsible for scrutinizing the Company's performance in achieving agreed corporate goals and objectives; and ensuring that the exercise of the board authority is within the powers conferred to the board under is Articles of Association, applicable laws, rules and regulations.

Confirmation of Independence

The Company has received annual confirmation of independence from Mr. Yamamoto Yoshimasa in accordance with Rule 3.13 of the Listing Rules. The Company is unable to obtain the relevant confirmation of independence from Professor Liang Neng and Mr. Lee Kit Wah due to their resignation and therefore is unable to fully ascertain their independence through the year ended 31 December 2012.

The Board consider that Mr. Yamamoto Yoshimasa is independent.

Appointment and Re-election of Directors

All executive Directors and non-executive Director and Mr. Yamamoto Yoshimasa have entered into service contracts with an initial term of one year unless and until terminated by either party by serving not less than three months' written notice. The independent non-executive Directors except Mr. Yamamoto Yoshimasa have entered into letter of appointment and shall continue until the Company's next annual general meeting or the appointment with a specific term of three years.

According to the Articles of Association (i) Directors appointed by the Board to fill a casual vacancy shall hold office until the first general meeting after appointment and be subject to re-election at such meeting; and (ii) each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every director (including those appointed for a specific term) and shall be subject to retirement at an annual general meeting at least once every three years.

Board Meetings

The Board holds at least four meetings a year. The Board conducts meeting on a regular basis and on an ad hoc basis, as required by business needs. All Directors are invited to attend the Board meetings in person or by telephone conference.

Sufficient notices for regular board meetings and notice of reasonable notice for non-regular board meetings were given to all directors so as to ensure that each of them had an opportunity to attend the meetings. Board papers will be given to the Board before the date of the Board meeting by the Company Secretary .

If a substantial shareholder or a Director has a conflict of interest in a matter, the matter will be dealt by a physical Board meeting rather than a written resolution.

During the Reporting Period, the Board reviewed, inter alia, the performance and formulated business strategy of the Group; reviewed and approved the annual and interim results of the Group for the year ended 31 December 2011 and 30 June 2012 respectively; approved a connected transaction; discharged obligations under Takeover Code, approved exercise of call option resulting in disposal of interest in a joint venture and approved the continuing connected transactions with the joint venture partner before the disposal; approved exercise and issue new shares upon exercising of share options; reviewed internal controls taken by the Group; and other significant operational and financial matters.

The Board held totally eleven Board meetings during the Reporting Period. Board meetings for the purpose of granting stock options or allotment of shares to exercised options in accordance to the terms set out in the Company's approved option scheme are delegated to meetings among executive directors. Directors' meetings called for this purpose was not counted towards the Director's attendance statistics.

Corporate Governance Report

Details of Directors' attendance records in 2012 are as follows:

Directors	No. of meetings attended/No. of Meetings held
Executive Directors	
Wang Zhiqiang	11/11
Wang Xubing	11/11
Shi Chongming	11/11
Li Jian (appointed on 11 June 2012)	3/3
Kotoi Hirofumi (appointed on 11 June 2012)	3/3
Zuo Jian Zhong (appointed on 18 July 2012)	2/2
Siu Kwok Leung (resigned on 18 July 2012)	9/9
Non-Executive Directors	
Wang Nengguang (retired on 22 May 2012)	1/6
Pang Chor Fu (retired on 22 May 2012)	3/6
Independent Non-Executive Directors	
Liang Neng (resigned on 10 September 2013)	8/11
Lee Kit Wah (resigned on 10 September 2013)	8/11
Yamamoto Yoshimasa (appointed on 11 June 2012)	3/3

Company Secretary

During the reporting period, Mr. Siu Kwok Leung is the company secretary of the Company. He is responsible for advising the Board on compliance and corporate governance matters. The company secretary also prepares detailed minutes of each meeting. Board Minutes would be sent to the Board for comments as soon as practicable. The Company Secretary reports to the Chairman. All Directors also have access to the advice and services of the Company Secretary to ensure that all applicable laws, rules and regulations are followed.

Mr. Siu Kwok Leung resigned as company secretary on 10 October 2013 and Ms. Foo Man Yee, Carina was appointed as company secretary on 10 October 2013.

The Company has no record or information whether Mr. Siu Kwok Leung has complied with the relevant professional training. The Company is therefore unable to fully ascertain whether Mr. Siu has completed the relevant professional training during the Reporting Period as required under Listing Rule 3.29.

Access to information

All Directors are kept informed major changes of the Group's business from time to time. They have unrestricted access to the advices from the company secretary who are responsible to provide the board papers and related materials. Due to inadvertent oversight, the Company failed to provide all members of the Board with monthly updates of the Group's business performance.

Minutes of Board Meeting and Board Committee meetings are kept by the company secretary and are open for inspection by any Director. The Directors including independent non-executive Directors may seek legal advices at the Company's expenses to discharge their duties.

Directors' and Officers' Liability

Appropriate insurance cover on directors' and officers' liabilities has been in force to protect the Directors and officers of the Group from their risk exposure arising from the businesses of the Group.

Directors' Training and Professional Development

A comprehensive, formal and tailored induction training will be given to every newly appointed Directors. Directors will reading materials relevant to the Company's business and director's duties and responsibilities. In order to allow the Directors to understand the latest development of regulatory and compliance issues, they are also provided with market news and regulatory. A summary of their records of continuous development training ("CPD") is as follows:

Directors	Types of CPD	Subject of CPD
Executive Directors		
Wang Zhiqiang	2	A, B
Wang Xubing	2	A, B
Shi Chongming	2	A, B
Li Jian (appointed on 11 June 2012)	1 & 2	A, B
Kotoi Hirofumi (appointed on 11 June 2012)	1 & 2	A, B
Zuo Jian Zhong (appointed on 18 July 2012)	1 & 2	A, B
Siu Kwok Leung (resigned on 18 July 2012)	C	
Non-Executive Directors		
Wang Nengguang (retired on 22 May 2012)	C	
Pang Chor Fu (retired on 22 May 2012)	C	
Independent Non-Executive Directors		
Liang Neng (resigned on 10 September 2013)	C	
Lee Kit Wah (resigned on 10 September 2013)	C	
Yamamoto Yoshimasa (appointed on 11 June 2012)	1 & 2	A, B

Note 1:

1. Attending in-house training or seminars
2. Reading newspapers, journals and updates

Note 2:

A. Business related to the Company
B. Laws rules and regulations, accounting standards
C. No record*

* Due to inadvertent oversight, the Company failed to maintain a proper and complete training records.

The Company has no record of CPD of Mr. Siu Kwok Leung, Mr. Wang Nengquang, Mr. Pang Chor Fu, Professor Liang Neng and Mr. Lee Kit Wah and is therefore unable to fully ascertain whether they have complied with the CPD requirements of CG Code.

Board Committees

The Board has established three committees with specific written terms of reference to oversee particular aspects of the Company's affairs.

Audit Committee

During the reviewing period, the Audit Committee has three members, namely Mr. Lee Kit Wah, Mr. Pang Chor Fu (retired on 22 May 2012), Professor Liang Neng and Mr. Yamamoto Yoshimasa (appointed on 11 June 2012).

As at the date of this report, Audit Committee currently consists of all independent non-executive Directors namely Mr. Chui Man Lung, Everett (the Chairman), Mr. Wu Hong and Mr. Yamamoto Yoshimasa.

The primary duties of the Audit Committee include, inter alia, to review and monitor financial reporting and the judgments contained therein; and to review financial and internal controls half-yearly and annually, accounting policies and to provide recommendations and advices to the Board on the appointment, re-appointment and removal of external auditor as well as their terms of appointment.

The Audit Committee reviewed and discussed with the management the accounting principles and practice adopted by the Group and auditing, internal controls and financial reporting matters. The audited financial statements of the Group for the financial year ended 31 December 2012 have been reviewed by the current Audit Committee.

Attendance of the members during the relevant period is set out below:

Members	No. of meetings attended/No. of meeting held
Lee Kit Wah	1/2
Liang Neng	1/2
Yamamoto Yoshimasa (appointed on 11 June, 2012)	1/1
Pang Chor Fu (retired on 22 May, 2012)	1/1

Nomination Committee

A Nomination Committee has been formed on 28 March 2012 comprising four members, namely Mr. Wang Zhiqiang (Chairman), Mr. Lee Kit Wah, Professor Liang Neng and Mr. Yamamoto Yoshimasa. As at the date of this report, the members of Nomination Committee are Mr. Wang Zhiqiang (the Chairman), and independent non-executive Directors Mr. Chui Man Lung, Everett, Mr. Wu Hong and Mr. Yamamoto Yoshimasa.

The major functions of the Nomination Committee are to review the structure and composition of the Board, to review and provide recommendations to the shareholders of the Company on individuals suitably qualified to become Board members and the terms of Director's service contract, and to assess the independence of the independent non-executive Directors.

The Nomination Committee has been provided sufficient resources to perform its duties and may seek independent professional advice at the Company's expenses, to perform its responsibilities if it considers necessary.

During the Reporting Period, the Board failed to adopt the Board Diversity Policy.

No meeting was held by the Nomination Committee during the year of 2012.

Salary Review Committee

During the Reporting Period, Salary Review Committee comprised of Mr. Wang Zhiqiang, Professor Liang Neng (Chairman), Mr. Lee Kit Wah, Mr. Pang Chor Fu and Mr. Wang Nengguang.

As at the date of this report, Salary Review Committee currently comprising executive Director namely Mr. Wang Zhiqiang and three members with a majority of independent non-executive directors namely Mr. Chui Man Lung, Everett, Mr. Wu Hong (the Chairman) and Mr. Yamamoto Yoshimasa.

The primary objectives of Salary Review Committee, inter alia, is to formulate the remuneration policy based on the responsibilities, qualifications and working performance of senior management and directors; review and recommend the Board the annual remuneration policy. The major objective of the remuneration policy is to ensure that the Company is able to attract, retain, and motivate a high-calibre team which is essential to the success of the Company.

During the Reporting Period, the Salary Review Committee held one meeting. It reviewed the remuneration package of Directors and considered the terms of appointment of the newly appointed Directors. The attendance of members of the Salary Review Committee of the Company are as follows:

Members	No. of meetings attended/No. of meeting held
Liang Neng (Chairman)	1/1
Lee Kit Wah	1/1
Wang Zhiqiang	1/1
Yamamoto Yoshimasa (appointed on 11 June 2012)	0/0
Pang Chor Fu (retired on 22 May 2012)	1/1
Wang Nengguang (retired on 22 May 2012)	0/1

Details of remuneration payable to Directors and senior management for the year are set out in note 11 to the consolidated financial statements.

Corporate Governance Function

The Code provision A.3.1 stipulated the Board should establish terms of reference to perform Corporate Governance functions. During the review period, the Company failed to establish the corporate governance function.

Corporate Governance Report

Accountability and Audit

The Directors acknowledge their responsibility for preparing the financial statements of the Group for the Reporting Period. The Directors consider that the financial statements have been prepared in conformity with the generally accepted accounting standards in Hong Kong. Having made appropriate enquiries, the Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern.

During the reviewing period, the auditors of the Company was Deloitte & Touche. They were removed by the shareholders of the Company on 23 December 2013 and Messrs. RSM Nelson Wheeler was appointed as auditors of the Company on 23 December 2013.

The financial statements of the Company for the year ended 31 December 2012 have been reviewed by the current audit committee of the Company (the "Audit Committee") and audited by the external auditors, Messrs. RSM Nelson Wheeler.

For the year ended 31 December 2012, the remuneration paid/payable to Deloitte & Touche, the former auditors of the Company, is set as follows:

Services	**Fee** (HK$)
Audit Fee	7,256,000
Non-audit Fee	2,369,000

For the year ended 31 December 2012, the remuneration paid/payable to RSM Nelson Wheeler, the auditors of the Company, is set as follows

Services	**Fee** (HK$)
Audit Fee	3,280,000
Non-audit Fee	6,000

Internal Control

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group. The Board delegated to the management the implementation of such systems of internal controls as well as the annual review of relevant financial, operational and compliance controls and risk management procedures. The management of the Group reviewed the Group's internal control and risk management system for the Reporting Period.

Investigation on Loans

As disclosed in the announcements dated 30 January 2013 and 23 April 2013, during the audit process, the Company identified that certain loans (the "SinoCom Loans") from SinoCom Japan Corporation ("SinoCom Japan"), a subsidiary of the Company, to three Japanese companies, namely SDI Inc., Falcon Inc. and King Tech Corporation, are related to certain loans (the "SJI Loans", together with the SinoCom Loans, the "Loans") granted by the three Japanese companies to SJI Inc. ("SJI"), a substantial shareholder of the Company. The Loans constitute historical major transactions and connected transactions of the Company.

In late April 2013, the Audit Committee engaged Kroll Associates (Asia) Limited ("Kroll"), an independent investigator, to assist in conducting an investigation into the commercial substance of the Loans and matters raised by Deloitte on the Loans. A summary of the key findings contained in the Kroll Report has been disclosed in the announcement of the Company dated 4 July 2013. In light of the Kroll Report, the Audit Committee would have to provide to the Board its opinion(s), recommendation(s) and proposed further actions(s) to be taken by the Company. However, the composition of the Audit Committee has been changed following the resignation and the appointment of independent non-executive directors on 10 September 2013. In order to provide such advice, the Audit Committee has taken further fact-finding action in respect of the Loans.

As disclosed in the announcement of the Company dated 23 April 2013, the Board has engaged Baker Tilly to conduct a review on the Company's internal control and corporate governance procedures. Baker Tilly has issued a report (the "Baker Tilly Report") on 13 June 2013 advising the Company on certain areas where internal control needs to be improved. As at the date of this report, the Baker Tilly Report is 9 months old and may not be able to reflect the current internal control situation of the Company. Due to this and as stated in the announcement of the Company dated 27 January 2014, the Company has separately engaged an international accounting firm (the "Firm") to conduct a review on the Company's internal controls. The review will cover any material or significant internal control deficiencies and weaknesses, and the Company will be provided with a report ("Internal Control Report") of findings with recommendations on the identified internal control deficiencies and weaknesses. As at the date of this report, the Internal Control Report is yet to be finalised and the Company will provide an update to the Shareholders once the same has been issued.

The Audit Committee will further provide the Board with a Recommendation Report containing its opinion(s), recommendation(s) and proposed further action(s) to be taken by the Company in light of the issued Internal Control Report and the Kroll Report.

Shareholders' Rights

Pursuant to Article 58 of the Company's Articles of Association, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself or themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company. The requisition in writing should be sent to the Company's office at Unit 1601, 16/F., Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong.

The same procedure also applies to any proposal to be tabled at shareholders' meetings for adoption. The Board will review shareholders' enquires on a regular basis. Specific enquiries and suggestions by shareholders can be sent in writing to the Board or the Company Secretary at the above address.

In case of shareholding enquires, shareholders should direct their enquiries to the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, via its online holding enquiry at www.tricoris.com, or by email to is-enquiries@hk.tricorglobal.com or dial its hotline at (852) 2980 1333 or go in person at its public counter at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

Communication with Shareholders

During the reviewing period, the Board did not adopt the shareholders' communication policy.

The Company provides extensive information in its annual and interim reports and announcements. All shareholders' communications are also available on the Company's website.

The annual general meeting of the Company provides a useful forum for shareholders to exchange views with the Board. All Directors will make an effort to attend. External auditor is also available at the annual general meeting to address shareholders' queries. In case of any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval, members of the independent Board committee will also make an effort to attend to address shareholders' queries.

The Chairman and the auditor of the Company, Deloitte Touche Tohmatsu, attended the annual general meeting of the Company held on 22 May 2012 (the "2012 AGM"). Details of the Directors' attendances at the 2012 AGM are as follows:

Directors	No. of General Meetings attended/ No. of general Meetings held
Executive Directors	
Wang Zhiqiang	1/1
Wang Xubing	0/1
Shi Chongming	0/1
Siu Kwok Leung	1/1
Non-Executive Directors	
Wang Nengquang	0/1
Pang Chor Fu	1/1
Independent Non-Executive Directors	
Liang Neng	0/1
Lee Kit Wah	1/1

Constitutional Documents

The Company does not have any changes in the constitutional document during the year under review.

Independent Auditor's Report

RSM
Audit • Tax • Advisory

TO THE SHAREHOLDERS OF SINOCOM SOFTWARE GROUP LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of SinoCom Software Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 35 to 92, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2012, and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

21 January 2014

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Revenue	6	**589,806**	684,942
Cost of services		**(459,363)**	(506,565)
Gross profit		**130,443**	178,377
Administrative expenses		**(100,314)**	(111,359)
Other income, gains and losses	7	**(16,425)**	29,095
Profit from operations		**13,704**	96,113
Gain on disposal of jointly controlled entities	18	**11,073**	–
Gain on deemed disposal of subsidiaries	28(b)	**–**	125,192
Impairment loss recognised in respect of investment in an associate	17	**(15,854)**	–
Share of result of an associate	17	**(3,442)**	–
Share of results of jointly controlled entities	18	**10,194**	2,257
Profit before tax		**15,675**	223,562
Income tax expense	9	**(21,563)**	(36,925)
(Loss)/profit for the year	10	**(5,888)**	186,637
Other comprehensive (expense)/income after tax:			
Exchange differences arising on translating foreign operations		**(766)**	22,675
Reclassification adjustment on translation difference upon liquidation of subsidiaries		**–**	107
Other comprehensive (expense)/income for the year, net of tax		**(766)**	22,782
Total comprehensive (expense)/income for the year		**(6,654)**	209,419
(Loss)/profit for the year attributable to:			
Owners of the Company		**(6,663)**	186,358
Non-controlling interests		**775**	279
		(5,888)	186,637
Total comprehensive (expense)/income for the year attributable to:			
Owners of the Company		**(7,433)**	208,968
Non-controlling interests		**779**	451
		(6,654)	209,419
(Loss)/earnings per share			
— Basic	14	**HK(0.60) cents**	HK16.73 cents
— Diluted	14	**HK(0.60) cents**	HK16.72 cents

Consolidated Statement of Financial Position

At 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Non-current assets			
Plant and equipment	15	**12,826**	12,484
Goodwill	16	**7,110**	7,111
Investment in an associate	17	**5,334**	–
Investments in jointly controlled entities	18	**–**	157,263
Deposits paid for acquisition of plant and equipment		**5,817**	–
Other deposits	19	**3,088**	3,097
Amount due from a fellow subsidiary	31	**9,867**	–
Deferred tax assets	25	**4,941**	9,017
		48,983	188,972
Current assets			
Trade and other receivables	20	**89,436**	103,634
Available-for-sale financial assets	21	**16,217**	–
Loan receivables from related companies	22	**88,293**	–
Tax recoverables		**1,736**	–
Amount due from a jointly controlled entity	31	**–**	4,072
Term deposits with initial terms of over three months	23	**181,457**	–
Bank balances and cash	23	**437,786**	606,067
		814,925	713,773
Current liabilities			
Trade and other payables	24	**119,499**	107,596
Amount due to ultimate holding company	31	**454**	–
Amount due to a jointly controlled entity	31	**–**	5,261
Current tax liabilities		**24,295**	11,665
		144,248	124,522
Net current assets		**670,677**	589,251
Total assets less current liabilities		**719,660**	778,223
Non-current liabilities			
Deferred tax liabilities	25	**7,876**	21,840
NET ASSET		**711,784**	756,383
Capital and reserves			
Share capital	26	**27,896**	27,850
Reserves	34(a)	**679,506**	724,879
Equity attributable to owners of the Company		**707,402**	752,729
Non-controlling interests		**4,382**	3,654
TOTAL EQUITY		**711,784**	756,383

Approved by the Board of Directors on 21 January 2014

Wang Zhiqiang
Director

Zuo Jian Zhong
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Attributable to owners of the Company												
	Share capital HK$'000	Share premium HK$'000 (Note 34 (c)(i))	Share redemption reserve HK$'000 (Note 34 (c)(ii))	Capital reserve HK$'000 (Note a)	Other reserve HK$'000 (Note b)	General reserve fund HK$'000 (Note c)	Shareholder's contribution HK$'000 (Note d and 34(c)(iv))	Translation reserve HK$'000 (Note e)	Share options reserve HK$'000 (Note 34 (c)(v))	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
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
Total comprehensive income for the year	–	–	–	–	–	–	–	22,610	–	186,358	208,968	451	209,419
Exercise of share options (note 26(i))	3	93	–	–	–	–	–	–	(21)	–	75	–	75
Recognition of equity-settled share based payments expenses	–	–	–	–	–	–	–	–	27	–	27	–	27
Acquisition of additional equity interests of a subsidiary (note 28(a))	–	–	–	–	–	–	–	–	–	85	85	(1,135)	(1,050)
Transfer	–	–	–	–	–	1,474	–	–	–	(1,474)	–	–	–
Transfer of share options reserve upon forfeiture of share options	–	–	–	–	–	–	–	–	(2,007)	2,007	–	–	–
Dividends recognised as distribution (note 13)	–	–	–	–	–	–	–	–	–	(77,956)	(77,956)	–	(77,956)
Changes in equity for the year	3	93	–	–	–	1,474	–	22,610	(2,001)	109,020	131,199	(684)	130,515
Balance at 31 December 2011	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
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
Total comprehensive income for the year	–	–	–	–	–	–	–	(770)	–	(6,663)	(7,433)	779	(6,654)
Exercise of share options (note 26(ii))	46	1,433	–	–	–	–	–	–	(319)	–	1,160	–	1,160
Transfer of share options reserve upon forfeiture of share options	–	–	–	–	–	–	–	–	(5,182)	5,182	–	–	–
Release of reserve upon disposal of jointly controlled entities	–	–	–	–	–	–	–	(1,501)	–	1,501	–	–	–
Transfer of reserve upon cancellation of share options (note 27)	–	–	–	–	–	–	1,392	–	(1,392)	–	–	–	–
Transfer	–	–	–	–	–	659	–	–	–	(659)	–	–	–
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	(51)	(51)
Dividends recognised as distribution (note 13)	–	–	–	–	–	–	–	–	–	(39,054)	(39,054)	–	(39,054)
Changes in equity for the year	46	1,433	–	–	–	659	1,392	(2,271)	(6,893)	(39,693)	(45,327)	728	(44,599)
Balance at 31 December 2012	27,896	166,189	2,269	10,657	5,078	28,639	4,118	98,534	10,104	353,918	707,402	4,382	711,784

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

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, prepared in accordance with generally accepted accounting principles in the PRC, 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.

Note e: The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(e) to the financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**15,675**	223,562
Adjustments for:			
Depreciation of plant and equipment		**4,469**	4,881
Exchange loss		**30,933**	–
Gain on deemed disposal of subsidiaries	28(b)	**–**	(125,192)
Gain on disposal of available-for-sale financial assets	7	**–**	(6,278)
Gain on disposal of jointly controlled entities	18	**(11,073)**	–
Interest income		**(14,683)**	(10,550)
Loss on disposal of plant and equipment		**1,229**	258
Release of translation reserve on liquidation of a subsidiary	7	**–**	665
Share of results of jointly controlled entities		**(10,194)**	(2,257)
Share of result of an associate		**3,442**	–
Impairment loss recognised in respect of investment in an associate		**15,854**	–
Share-based payment expenses		**–**	27
(Reversal of)/allowance for doubtful debts		**(708)**	6,423
Operating profit before working capital changes		**34,944**	91,539
Decrease/(increase) in trade and other receivables		**10,078**	(13,776)
Decrease in other deposits		**9**	1,508
Decrease/(increase) in amount due from a jointly controlled entity		**4,072**	(4,072)
Increase in amount due from a fellow subsidiary		**(9,867)**	–
Decrease in held for trading investments		**–**	100
Increase in amount due to ultimate holding company		**454**	–
(Decrease)/increase in amount due to a jointly controlled entity		**(5,261)**	5,261
Increase in trade and other payables		**11,915**	32,380
Cash generated from operations		**46,344**	112,940
Income tax paid		**(20,015)**	(27,748)
Interest received		**5,957**	10,550
Net cash generated from operating activities		**32,286**	95,742

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of short term investments		**(992,050)**	–
Loan granted to related companies	22	**(538,992)**	–
Placement of term deposits		**(181,457)**	–
Acquisition of investment in an associate	17	**(24,605)**	–
Purchase of available-for-sale financial assets		**(16,217)**	–
Purchases of plant and equipment		**(6,511)**	(6,567)
Deposit paid for acquisition of plant and equipment		**(5,817)**	–
Proceeds from disposal of short term financial assets		**992,050**	–
Loan repayment from related companies	22	**433,282**	–
Proceeds on disposal of jointly controlled entities	18	**177,626**	–
Interest received for short term investments		**6,737**	–
Proceeds from disposal of available-for-sale financial assets		**6,056**	–
Interest received for loan receivables		**772**	–
Proceeds from disposal of plant and equipment		**459**	198
Deemed disposal of subsidiaries	28(b)	**–**	(168,338)
Deposit received		**–**	95,313
Loan repayment from a jointly controlled entity		**–**	35,886
Net cash used in investing activities		**(148,667)**	(43,508)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		**(39,054)**	(77,956)
Repayment to ultimate holding company		**(21,610)**	–
Dividends paid to non-controlling shareholders		**(51)**	–
Advance from ultimate holding company		**22,328**	–
Proceeds from issue of shares upon exercise of share options		**1,160**	75
Acquisition of additional equity interest in a subsidiary		**–**	(1,246)
Net cash used in financing activities		**(37,227)**	(79,127)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(153,608)**	(26,893)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**606,067**	613,978
Effect of foreign exchange rate changes		**(14,673)**	18,982
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	23	**437,786**	606,067
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		**437,786**	606,067

1. General Information

The Company was incorporated in the Cayman Islands with limited liability. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of its principal place of business in Hong Kong is Unit 1601, 16/F, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 35 to the financial statements.

In the opinion of the directors of the Company, as at 31 December 2012, SJI (Hong Kong) Limited, a company incorporated in Hong Kong, is the immediate holding company; SJI Inc. ("SJI"), a company incorporated in Japan, is the ultimate holding company.

2. Adoption of New and Revised Hong Kong Financial Reporting Standards

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for its accounting year beginning on 1 January 2012. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The application of these new HKFRSs will not have material impact on the financial statements of the Group. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

3. Significant Accounting Policies

These financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas where assumptions and estimates are significant to these financial statements, are disclosed in note 4 to the financial statements.

The significant accounting policies applied in the preparation of these financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

3. Significant Accounting Policies (Continued)

(a) Consolidation (Continued)

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated translation reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

(b) Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The cost of acquisition is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the cost of acquisition over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Company.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the cost of acquisition to calculate the goodwill.

3. Significant Accounting Policies (Continued)

(b) Business combination and goodwill (Continued)

If the changes in the value of the previously held equity interest in the subsidiary were recognised in other comprehensive income (for example, available-for-sale investment), the amount that was recognised in other comprehensive income is recognised on the same basis as would be required if the previously held equity interest were disposed of.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in the accounting policy(s) below. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

(c) Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has significant influence.

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of an associate's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's share of the net assets of that associate plus any remaining goodwill relating to that associate and any related accumulated translation reserve.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

3. Significant Accounting Policies (Continued)

(d) Joint venture

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over the economic activity when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the "venturers").

A jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest.

Investment in a jointly controlled entity is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the jointly controlled entity in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the jointly controlled entity's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of a jointly controlled entity's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity. If the jointly controlled entity subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of a jointly controlled entity that results in a loss of joint control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that jointly controlled entity and (ii) the Group's share of the net assets of that jointly controlled entity plus any remaining goodwill relating to that jointly controlled entity and any related accumulated translation reserve.

Unrealised profits on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interests in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

(e) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the Company's presentation currency. The functional currency of the principal operating subsidiaries of the Group is Renminbi ("RMB"). The directors consider that choosing HK$ as the presentation currency best suits the needs of the shareholders and investors.

3. Significant Accounting Policies (Continued)

(e) Foreign currency translation (Continued)

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

— Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

— Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

— All resulting exchange differences are recognised in the translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the translation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

3. Significant Accounting Policies (Continued)

(f) Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Office equipment	10% — $33^1/_3$%
Motor vehicles	20% — 25%
Leasehold improvements	Over the lease term

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

(g) Operating leases

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

(h) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

3. Significant Accounting Policies (Continued)

(i) Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets not classified as trade and other receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in other comprehensive income, until the investments are disposed of or there is objective evidence that the investments are impaired, at which time the cumulative gains or losses previously recognised in other comprehensive income are recognised in profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

Impairment losses recognised in profit or loss for equity investments classified as available-for-sale financial assets are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale financial assets are subsequently reversed and recognised in profit or loss if an increase in the fair value of the instruments can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted instruments, they are measured at cost less any identified impairment losses at the end of each reporting period.

(j) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

3. Significant Accounting Policies (Continued)

(k) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(l) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(m) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenue from provision of out sourcing software development services and technical support services is recognised when the services are provided in the normal course of business, net of discounts and sales related taxes.

Interest income is recognised on a time-proportion basis using the effective interest method.

(n) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

3. Significant Accounting Policies (Continued)

(n) Employee benefits (Continued)

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(o) Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at the fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained earnings.

When the vested share options are repurchased, the payment made to the employee will be accounted for as a deduction from equity, except to the extent that the payment exceeds the fair value of the equity instruments repurchased, measured at the repurchase date. Any such excess will be recognised as an expense.

(p) Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

3. Significant Accounting Policies (Continued)

(q) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3. Significant Accounting Policies (Continued)

(r) Related parties

A related party is a person or entity that is related to the Group.

(A) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Company or of a parent of the Company.

(B) An entity is related to the Group (reporting entity) if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (A).

(vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(s) Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except goodwill, deferred tax assets, investments and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

3. Significant Accounting Policies (Continued)

(s) Impairment of assets (Continued)

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(t) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(u) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

4. Key Sources of Estimation Uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Estimated impairment of investment in an associate

Determining whether the investment in an associate is impaired requires an estimation of the recoverable amount of the associate. The estimation of the recoverable amount requires the Group to estimate the future cash flows expected to arise from the associate and a suitable discount rate in order to calculate the present value. Where the actual cash flows are less than expected, a material impairment loss may arise. As at 31 December 2012, the carrying amount of investment in an associate is HK$5,334,000 (net of accumulated impairment loss of HK$15,854,000).

Allowances for doubtful debts

The Group makes allowances for doubtful debts based on an assessment of the recoverability of trade receivables and loan receivables from related companies. Allowances are applied to trade receivables and loan receivables from related companies where events or changes in circumstances indicated that the balances may not be collectible. The identification of doubtful debts requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact carrying amounts of trade receivables, loans receivables from related companies and doubtful debts expenses in the year in which such estimate is changed. As at 31 December 2012, the carrying amount of trade receivables and loan receivables from related companies was HK$76,281,000 (net of allowance for doubtful debts of nil) (2011: carrying amount of HK$85,669,000, net of allowance for doubtful debts of HK$6,571,000) and HK$88,293,000 (2011: nil), respectively.

5. Financial Risk Management

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has certain exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in United States dollar ("US$"), Japanese Yen ("JPY") and HK$, and the functional currencies of the principal operating entities of the Group are JPY and RMB. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Liabilities		Assets	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
US$	**–**	–	**3,531**	13,363
JPY	**24,124**	31,105	**372,956**	191,243
HK$	**15,788**	4,332	**14,574**	117,052

5. Financial Risk Management (Continued)

(a) Foreign currency risk (Continued)

The sensitivity analysis has been determined based on the exposure to a 5% (2011: 5%) increase and decrease in the functional currencies of respective subsidiaries against the relevant foreign currencies. 5% (2011: 5%) is the sensitivity rate used and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes outstanding amounts of relevant subsidiaries' foreign currency denominated monetary items and adjusts their translation at the period end for a 5% (2011: 5%) change in foreign currency rates.

For a 5% (2011: 5%) strengthening/weakening of US$ of respective subsidiaries against the relevant foreign currencies, the consolidated loss for the year would have been HK$177,000 higher/lower (2011: consolidated profit for the year would have been HK$664,000 lower/higher). For a 5% (2011: 5%) strengthening/weakening of JPY of respective subsidiaries against the relevant foreign currencies, the consolidated loss for the year would have been HK$10,648,000 higher/lower (2011: consolidated profit for the year would have been HK$3,252,000 lower/higher). For a 5% (2011: 5%) strengthening/weakening of HK$ of respective subsidiaries against the relevant foreign currencies, the consolidated loss for the year would be HK$61,000 lower/higher (2011: consolidated profit for the year would have been HK$5,636,000 lower/higher).

(b) Credit risk

The carrying amount of the bank balances and cash, term deposits with initial terms of over three months, trade and other receivables, investments, and loan receivables from related companies included in the statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

It has policies in place to ensure that sales are made to customers with an appropriate credit history. Amounts due from related companies are closely monitored by the directors.

The credit risk on bank balances and cash and term deposits with initial terms of over three months, is limited because the counterparties are banks with high credit-ratings.

The Group's concentration of credit risk on trade receivables by geographical locations is mainly in the PRC and Japan.

The Group has concentration of credit risk as 51.7% (2011: 55.9%) and 70.1% (2011: 64.6%) of the total trade receivable was due from the Group's largest customer and the five largest customers respectively.

The Group's credit risk on loan receivables from related companies is set out in note 22.

Other than concentration of credit risk described above and in note 22, the Group does not have any other significant concentration of credit risk.

(c) Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate bank balances and cash and continuously monitoring forecast and actual cash flows.

5. Financial Risk Management (Continued)

(c) Liquidity risk (Continued)

The following tables details the Group's remaining contractual maturity for its financial liabilities which are included in the maturity analysis for the purpose of managing liquidity risk. The tables reflect the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay in accordance with agreed repayment terms. The tables include principal cash flows.

The maturity analysis of the Group's financial liabilities is as follows:

	Less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000
At 31 December 2012				
Trade payables	**11,372**	**–**	**–**	**–**
Wages and salaries payables and other payables	**88,848**	**–**	**–**	**–**
Amount due to ultimate holding company	**454**	**–**	**–**	**–**
At 31 December 2011				
Trade payables	13,173	–	–	–
Wages and salaries payables and other payables	88,990	–	–	–
Amount due to a jointly controlled entity	5,261	–	–	–

(d) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to loan receivables from related companies (see note 22). Cash flow interest rate risk in relation to bank balances and deposits is considered insignificant. Hence, no sensitivity analysis is presented. Interest rate risk is managed by the management of the Company on an ongoing basis with the primary objective of limiting the extent to which interest expense could be affected by adverse movement in interest rates.

The cash flow interest rate risk of the Group is mainly concentrated on the fluctuation of prevailing interest rate announced by the People's Bank of China.

(e) Categories of financial instruments at 31 December 2012

	2012 HK$'000	2011 HK$'000
Financial assets:		
Loans and receivables (including cash and cash equivalents)	**607,829**	704,916
Term deposits with initial terms of over three months	**181,457**	–
Available-for-sale financial assets	**16,217**	–
Financial liabilities:		
Financial liabilities measured at amortised cost	**100,674**	107,424

5. Financial Risk Management (Continued)

(f) Fair values

Except available-for-sale financial assets as disclosed in note 21, the carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

6. Revenue

	2012 HK$'000	2011 HK$'000
Outsourcing software development services	581,624	674,000
Technical support services	8,182	10,942
	589,806	684,942

Revenue from outsourcing software development services and technical support services are net of business tax and local government levies of approximately HK$28,656,000 (2011: HK$30,845,000).

7. Other Income, Gains and Losses

Other income, gains and losses include the following:

	2012 HK$'000	2011 HK$'000
Interest income from short term investments	6,737	10,006
Interest income from loan receivables	1,989	–
Interest income from bank balances	5,957	544
Government subsidies	4,891	7,077
Net foreign exchange (loss)/gain (Note)	(35,597)	4,504
Loss on disposal of held for trading investments	(248)	(32)
Gain on disposal of available-for-sale financial assets	–	6,278
Reclassification adjustment on translation difference upon liquidation of a subsidiary	–	(665)
Others	(154)	1,383
	(16,425)	29,095

Note: The foreign exchange loss is mainly attributable to bank balances and cash, trade receivables and loan receivables from related companies denominated at JPY arising from the deprecation in JPY against the functional currency of each of the Group's entities.

Government subsidies include subsidies from local government for the employment of new university graduates of approximately HK$1,743,000 (2011: HK$3,292,000) and for its exports of outsourcing software development services of approximately HK$3,048,000 (2011: HK$3,524,000). There were specific conditions attached to the government subsidies, the Group recognised the government subsidies in profit or loss when it fulfills all the conditions specified in the subsidy notice or relevant law and regulations.

8. Segment Information

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

Segment revenues and results

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

Year ended 31 December 2012

	PRC HK$'000	Japan HK$'000	Total HK$'000
Revenue	25,260	564,546	589,806
Cost of services	(25,078)	(434,285)	(459,363)
Gross profit	182	130,261	130,443
Administrative expenses	(2,085)	(66,477)	(68,562)
Share of results of jointly controlled entities	–	10,194	10,194
Segment results	(1,903)	73,978	72,075
Share of result of an associate			(3,442)
Impairment loss recognised in respect of investment in an associate			(15,854)
Gain on disposal of jointly controlled entities			11,073
Other income, gains and losses			(16,425)
Unallocated corporate expenses			(31,752)
Profit before tax			15,675

8. Segment Information (Continued)

Segment revenues and results (Continued)

Year ended 31 December 2011

	PRC HK$'000	Japan HK$'000	Total HK$'000
Revenue	23,664	661,278	684,942
Cost of services	(23,006)	(483,394)	(506,400)
Gross profit	658	177,884	178,542
Administrative expenses	(8,643)	(87,212)	(95,855)
Share of results of jointly controlled entities	–	2,257	2,257
Segment results	(7,985)	92,929	84,944
Gain on deemed disposal of subsidiaries			125,192
Other income, gains and losses			29,095
Unallocated corporate expenses			(15,669)
Profit before tax			223,562

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

The accounting policies of the operating segments are the same as accounting policies of the Group described in note 3.

Segment profit represents the profit earned by each segment without allocation of share of result of an associate, impairment loss recognised in respect of investment in an associate, gain on disposal of jointly controlled entities, gain on deemed disposal of subsidiaries, other income, gains and losses, share-based payment expenses, central administration cost and directors' emoluments. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

8. Segment Information (Continued)

Segment assets and liabilities

The following is an analysis of the assets and liabilities by operating segment of the Group:

At 31 December 2012

	PRC HK$'000	Japan HK$'000	Total HK$'000
Segment assets	**419,162**	**390,135**	**809,297**
Unallocated assets			**54,611**
Consolidated total			**863,908**
Segment liabilities	**31,884**	**96,574**	**128,458**
Unallocated liabilities			**23,666**
Consolidated total			**152,124**

At 31 December 2011

	PRC HK$'000	Japan HK$'000	Total HK$'000
Segment assets	493,595	349,199	842,794
Unallocated assets			59,951
Consolidated total			902,745
Segment liabilities	12,666	107,510	120,176
Unallocated liabilities			26,186
Consolidated total			146,362

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

- all assets are allocated to operating segments other than unallocated bank balances and cash, goodwill, deferred tax assets, available-for-sale financial assets, investment in an associate and assets used jointly by operating segments.
- term deposits with initial terms of over three months and bank balances and cash are allocated to operating segments based on the location of the term deposits with initial terms of over three months and bank balances and cash.
- all liabilities are allocated to operating segments other than deferred tax liabilities and liabilities for which operating segments are jointly liable.
- liabilities payable to the government department such as tax bureau and social security department are allocated to operating segments based on the location of the tax bureau and social security department.

8. Segment Information (Continued)

Other segment information

Year ended 31 December 2012

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

	PRC HK$'000	Japan HK$'000	Consolidated HK$'000
Additions to non-current assets (Note)	**12,328**	**–**	**12,328**
Depreciation	**4,385**	**84**	**4,469**
Loss on disposal of plant and equipment	**1,216**	**13**	**1,229**
Reversal of allowance for doubtful debts	**(708)**	**–**	**(708)**

Year ended 31 December 2011

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

	PRC HK$'000 (restated)	Japan HK$'000 (restated)	Consolidated HK$'000 (restated)
Additions to non-current assets (Note)	6,567	–	6,567
Depreciation	4,794	87	4,881
Loss on disposal of plant and equipment	116	142	258
Allowance for doubtful debts	6,423	–	6,423

Note: Non-current assets excluded goodwill, investments in jointly controlled entities, investment in an associate, available-for-sale financial assets, other deposits, amount due from a fellow subsidiary and deferred tax assets.

Geographical information

The operations of the Group are located in the PRC (country of domicile) and Japan.

The information of the Group about its plant and equipment and deposits paid for acquisition of plant and equipment by geographical location of the assets is detailed below:

	2012 HK$'000	2011 HK$'000 (restated)
PRC (country of domicile)	**18,480**	12,203
Japan	**163**	281
	18,643	12,484

8. Segment Information (Continued)

Information about major customers

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

	Year ended 31 December	
	2012	2011
	HK$'000	HK$'000
Customer A[1]	**368,880**	289,192
Customer B[1]	**N/A***	169,532

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

* The corresponding revenue did not contribute over 10% of the total revenue of the Group.

9. Income Tax Expense

	2012	2011
	HK$'000	HK$'000
Current tax:		
PRC Enterprise Income Tax	**8,450**	17,150
Japan income tax	**9,179**	10,783
PRC withholding tax	**198**	11,432
Enterprise income tax on capital gain on disposal of jointly controlled entities	**16,809**	–
Overprovision in prior years:	**34,636**	39,365
PRC Enterprise Income Tax	**(3,171)**	(1,532)
	31,465	37,833
Deferred tax (note 25):		
Current year	**(9,902)**	(908)
	21,563	36,925

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

Pursuant to the EIT Law, a subsidiary, 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 rate of 15% as compared to the unified tax rate of 25% from 2012 to 2014.

A subsidiary, Dalian SinoCom High Technology Software Company Limited ("SinoCom Dalian") is recognised as a software and technology advance enterprise by the relevant PRC government authorities and SinoCom Dalian was entitled to enjoy a concessionary Enterprise Income Tax rate of 15% as compared to the unified tax rate of 25% from 2011 to 2012.

9. Income Tax Expense (Continued)

A subsidiary, 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 tax perspective.

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

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% (2011: 18%) on the portion of taxable income not exceeding JPY8,000,000 (equivalent to approximately HK$721,000 (2011: HK$784,000)) and 30% (2011: 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% (2011: 2.95%) on the portion of taxable income not exceeding JPY4,000,000 (equivalent to approximately HK$389,000 (2011: HK$392,000)), 4.365% (2011: 4.365%) on the portion of taxable income in excess of JPY4,000,000 but not exceeding JPY8,000,000 and 5.78% (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 (2011: HK$7,000)) to JPY200,000 (equivalent to approximately HK$20,000 (2011: HK$20,000)), depending on the headcount and capital of the entities.

9. Income Tax Expense (Continued)

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

	2012 **HK$'000**	2011 HK$'000 (restated)
Profit before tax	**15,675**	223,562
Taxation at the applicable PRC Enterprise Income Tax rate of 25% (2011: 25%)	**3,919**	55,891
Tax effect of share of results of jointly controlled entities	**(2,549)**	(564)
Tax effect of share of result of an associate	**861**	–
Tax effect of income not taxable in determining taxable profit	**(687)**	–
Tax effect of expenses not deductible in determining taxable profit	**20,003**	5,771
Tax effect of temporary differences not recognised	**3,948**	–
Effect of tax exemption and concessions granted to PRC subsidiaries	**(3,630)**	(7,266)
Withholding tax on the profits of PRC subsidiaries	**(1,097)**	3,157
Tax effect of tax losses not recognised	**287**	–
Overprovision in prior years	**(3,171)**	(1,532)
Deferred tax changes resulting from change in applicable tax rate	**–**	(3,748)
Effect of different tax rate on gain on deemed disposal of subsidiaries	**–**	(18,779)
Effect of different tax rate on gain on disposal of jointly controlled entities	**(1,661)**	–
Effect of different tax rates of subsidiaries operating in other jurisdiction	**5,340**	3,995
Income tax expense	**21,563**	36,925

10. (Loss)/Profit for the Year

(Loss)/profit for the year has been arrived at after charging/(crediting):

	2012 **HK$'000**	2011 HK$'000 (restated)
Auditors' remuneration	**10,536**	2,933
Depreciation of plant and equipment	**4,469**	4,881
Loss on disposal of plant and equipment	**1,229**	258
Minimum lease payments paid under operating leases during the year in respect of office premises	**20,472**	26,627
(Reversal of)/allowance for doubtful debts	**(708)**	6,423
Staff costs:		
Directors' emoluments (note 11)	**12,050**	12,785
Other staff costs		
— Salaries and other benefits	**334,846**	404,350
— Share-based payment expenses	**–**	27
— Retirement benefits schemes contributions	**35,174**	40,503
	382,070	457,665

11. Directors', Chief Executives' and Employees' Emoluments

The emoluments of each director were as follows:

	Fees HK$'000	Salaries and allowances HK$'000	Discretionary bonus HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
As at 31 December 2012					
Executive Directors					
Mr. Wang Zhiqiang	–	2,074	526	40	2,640
Mr. Siu Kwok Leung (note (c))	–	1,354	400	–	1,754
Mr. Kotoi Hirofumi (note (d) and (i))	–	667	–	–	667
Mr. Li Jian (note (d) and (h))	–	667	–	–	667
Mr. Zuo Jian Zhong (note (e))	–	217	–	–	217
Non-executive Directors					
Mr. Wang Nengguang (note (b))	–	–	–	–	–
Mr. Pang Chor Fu (note (b))	–	83	–	–	83
Mr. Wang Xubing (note (f))	–	2,074	286	40	2,400
Dr. Shi Chongming (note (f))	–	2,355	640	61	3,056
Independent Non-executive Directors					
Professor Liang Neng (note (g))	208	–	–	–	208
Mr. Lee Kit Wah (note (g))	241	–	–	–	241
Mr. Yamamoto Yoshimasa (note (d))	117	–	–	–	117
Total for the year ended 31 December 2012	566	9,491	1,852	141	12,050

11. Directors', Chief Executives' and Employees' Emoluments (Continued)

	Fees HK$'000	Salaries and allowances HK$'000	Discretionary bonus HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
As at 31 December 2011					
Executive Directors					
Mr. Wang Zhiqiang	–	2,106	1,160	36	3,302
Mr. Wang Xubing	–	2,106	1,160	36	3,302
Mr. Siu Kwok Leung	–	1,307	400	–	1,707
Dr. Shi Chongming	–	2,222	1,280	270	3,772
Non-executive Directors					
Mr. Wang Nengguang	–	–	–	–	–
Mr. Pang Chor Fu	–	250	–	–	250
Independent Non-executive Directors					
Professor Liang Neng	202	–	–	–	202
Mr. Lee Kit Wah	250	–	–	–	250
Total for the year ended 31 December 2011	452	7,991	4,000	342	12,785

Notes:

(a) Bonus is determined by the Salary Review Committee with reference to the performance of the Group.

(b) Mr. Wang Nengguang and Mr. Pang Chor Fu retired on 22 May 2012.

(c) Mr. Siu Kwok Leung resigned on 18 July 2012.

(d) Mr. Kotoi Hirofumi, Mr. Li Jian ("Mr. Li") and Mr. Yamamoto Yoshimasa were appointed on 11 June 2012.

(e) Mr. Zuo Jian Zhong was appointed on 18 July 2012.

(f) Mr. Wang Xubing and Dr. Shi Chongming were re-designated from executive directors to non-executive directors on 18 July 2012.

(g) Professor Liang Neng and Mr. Lee Kit Wah resigned on 10 September 2013.

(h) Mr. Li has been re-designated from an executive director to a non-executive director on 30 September 2013.

(i) Mr. Kotoi Hirofumi was appointed as chief financial officer of the Company on 1 March 2013 and resigned on this position on 15 November 2013.

There was no arrangement under which a director waived or agreed to waive any remuneration during both years.

11. Directors', Chief Executives' and Employees' Emoluments (Continued)

Of the five individuals with the highest emoluments in the Group, four (2011: four) were directors of the Company whose emoluments are reflected in the analysis presented above. The emoluments of the remaining one (2011: one) individual were as follows:

	2012 HK$'000	2011 HK$'000
Salaries and other benefits	**1,474**	1,391
Retirement benefits schemes contributions	**61**	187
	1,535	1,578

The emolument of the remaining one (2011: one) individual was within HK$1,500,001 to HK$2,000,000 (2011: HK$1,000,001 to HK$1,500,000).

12. Retirement Benefit Schemes

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

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

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

	2012 HK$'000	2011 HK$'000
Retirement benefits contributions made during the year	**35,315**	40,845

13. Dividends

During the year ended 31 December 2011, a final dividend of HK3.10 cents per share and a special dividend of HK3.90 cents per share (total dividend of HK$77,956,000) in respect of the financial year ended 31 December 2010 were paid to the shareholders. In respect of the financial year ended 31 December 2011, a final dividend of HK3.50 cents per share (total dividend of HK$39,054,000) was declared on 22 May 2012 and were paid to the shareholders during the year ended 31 December 2012.

The directors of the Company did not recommend payment of any final dividend for the year ended 31 December 2012.

14. (Loss)/Earnings per Share

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

	2012 HK$'000	2011 HK$'000
(Loss)/earnings:		
(Loss)/earnings for the purposes of calculating basic and diluted (loss)/earnings per share	**(6,663)**	186,358

	2012 '000	2011 '000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic (loss)/earnings per share	**1,115,297**	1,113,931
Effect of dilutive potential ordinary shares arising from share options issued by the Company	**–**	578
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share	**1,115,297**	1,114,509

The effects of all potential ordinary shares are anti-dilutive for the year ended 31 December 2012.

The computation of diluted earnings per share does not assume the exercise of certain of share options of the Company because the exercise price of those share options was higher than the average market price for shares for 2011.

15. Plant and Equipment

	Office equipment HK$'000	Motor vehicles HK$'000	Leasehold improvements HK$'000	Total HK$'000
Cost				
At 1 January 2011	28,007	7,199	2,668	37,874
Exchange differences	1,470	370	142	1,982
Additions	4,052	1,263	1,252	6,567
Disposal of subsidiaries (note 28(b))	(2,539)	(227)	(138)	(2,904)
Disposals	(1,769)	(553)	(727)	(3,049)
At 31 December 2011 and 1 January 2012	29,221	8,052	3,197	40,470
Exchange differences	(144)	(64)	(43)	(251)
Additions	3,020	3,069	422	6,511
Disposals	(6,803)	(1,787)	(133)	(8,723)
At 31 December 2012	25,294	9,270	3,443	38,007
Accumulated depreciation				
At 1 January 2011	17,925	5,532	1,853	25,310
Exchange differences	976	277	90	1,343
Charge for the year	3,487	658	736	4,881
Disposal of subsidiaries (note 28(b))	(724)	(94)	(137)	(955)
Disposals	(1,407)	(459)	(727)	(2,593)
At 31 December 2011 and 1 January 2012	20,257	5,914	1,815	27,986
Exchange differences	(144)	(63)	(32)	(239)
Charge for the year	2,892	703	874	4,469
Disposals	(5,322)	(1,593)	(120)	(7,035)
At 31 December 2012	17,683	4,961	2,537	25,181
Carrying amount				
At 31 December 2012	7,611	4,309	906	12,826
At 31 December 2011	8,964	2,138	1,382	12,484

16. Goodwill

	HK$'000
Cost	
At 1 January 2011	9,394
Exchange differences	466
At 31 December 2011 and 1 January 2012	9,860
Exchange differences	(1)
At 31 December 2012	9,859
Impairment	
At 1 January 2011	2,619
Exchange differences	130
At 31 December 2011, 1 January 2012 and 31 December 2012	2,749
Carrying values	
At 31 December 2012	7,110
At 31 December 2011	7,111

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

	2012 HK$'000	2011 HK$'000
Outsourcing software development services		
SinoCom Shensoft Holdings (BVI) Limited ("SinoCom Shensoft")	**7,110**	7,111

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

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

The recoverable amount of the CGU of SinoCom Shensoft has been determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a one-year period, and a discount rate of 17% (2011: 17%). Cash flows beyond one-year period are extrapolated using a growth rate of 10% (2011: 12%) for SinoCom Shensoft, over the projected period of five years for impairment assessment purpose. These growth rates are based on the relevant industry growth forecasts and do not exceed the average long-term growth rates for the relevant industries. Other key assumptions for the value in use calculation and the budgeted gross margins, which are determined based on the CGU's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed the aggregate recoverable amount of the CGU.

17. Investment 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. Pang 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. Pang 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).

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 which 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 announcement of the Company dated 6 March 2012.

Details of the investment of the Group in an associate are as follows:

	2012 HK$'000
Cost of unlisted investment in an associate	24,605
Share of post-acquisition losses	(3,442)
Impairment loss recognised in respect of the investment in an associate	(15,854)
Exchange differences	25
	5,334

As at 31 December 2012, the Group had interest in the following associate:

Name of entity	Country of incorporation	Principal place of operation	Issued and paid up capital	Proportion of nominal value of issued capital held by the Group 2012	2011	Proportion of voting power held 2012	2011	Principal activity
Gotoura Limited	British Virgin Islands	PRC	75,188 ordinary shares of US$1 each	33.5%	N/A	33.5%	N/A	Provision of travelling information services

17. Investment in an Associate (Continued)

The summarised financial information in respect of an associate of the Group which is accounted for using the equity method is set out below:

	2012 HK$'000
Total assets	16,942
Total liabilities	(1,020)
Net assets	15,922
Share of net assets of an associate of the Group	5,334
Intangible assets recognised less accumulated amortisation	3,523
Goodwill recognised	13,212
Deferred tax liabilities	(881)
Impairment loss recognised in respect of investment in an associate	(15,854)
Carrying amount of investment in an associate	5,334

	2012 HK$'000
Total revenue	16,983
Total loss for the year	(10,275)
Share of loss of an associate of the Group for the year	(3,442)

During the year, the directors of the Company conducted a review of the investment in an associate and determined that investment in an associate was impaired. During the year, impairment loss of HK$15,854,000 (2011: nil) has been recognised in respect of the investment in an associate as the directors of the Company expected that there will be a significant decline in revenue derived from providing travelling information services upon the change in operating environment during the year of which led to a worse financial performance than expected in foreseeable future.

18. Investments in Jointly Controlled Entities

On 28 February 2011, 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 had conditionally agreed to subscribe for, and SinoCom DIR had 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 was a wholly owned subsidiary established by SinoCom BVI in Hong Kong in January 2011. Upon completion of the subscription, SinoCom DIR was owned as to 60% by SinoCom BVI and 40% by DIR-BI, and SinoCom DIR was classified as a jointly controlled entity as DIR-BI was 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.

18. Investments in Jointly Controlled Entities (Continued)

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 directors of the Company, the fair value of these options is insignificant.

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 60% equity interest of the Group in SinoCom DIR to DIR-BI for 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.

As at 31 December 2011, the Group had interests in the following jointly controlled entities:

Name of entity	Place of incorporation and operation	Class of capital held	Proportion of nominal value of issued capital indirectly held by the Group 2011	Proportion of voting power held 2011	Principal activity
SinoCom DIR Business Innovation Co., Ltd ("SinoCom DIR")	Hong Kong	Ordinary shares JPY100,000,000	60%	60%	Investment holding
SinoCom DIR Business Innovation Technology (Beijing) Co., Ltd ("SinoCom DIR Beijing")	PRC	Registered capital US$600,000	60%	60%	Provision of outsourcing software development services
Jinan SinoCom DIR Business Information Technology Limited ("Jinan SinoCom DIR")	PRC	Registered capital US$300,000	60%	60%	Provision of outsourcing software development services

18. Investments in Jointly Controlled Entities (Continued)

	2011 HK$'000
Cost of unlisted investment in jointly controlled entities (note 28(b))	152,601
Share of profit	2,257
Exchange differences	2,405
	157,263

Investments in jointly controlled entities as at 31 December 2011 included customer relationship of HK$37,202,000 (amortised over ten years) and goodwill of HK$46,734,000.

The summarised financial information in respect of the investments of the Group in the jointly controlled entities which were accounted for using the equity method is set out below:

	2011 HK$'000
Current assets	103,762
Non-current assets	5,659
Current liabilities	(26,793)
Share of net assets by the Group	82,628
Intangible assets recognised less accumulated amortisation	37,202
Goodwill recognised	46,734
Deferred tax liabilities	(9,301)
	157,263

	2012 **HK$'000**	2011 HK$'000
Income recognised in profit or loss	**66,496**	45,776
Expenses recognised in profit or loss	**(54,874)**	(42,578)
Amortisation of intangible assets	**(1,904)**	(1,254)
Deferred tax credited to profit or loss	**476**	313

19. Other Deposits

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

20. Trade and Other Receivables

	2012 HK$'000	2011 HK$'000
Trade receivables	**76,281**	92,240
Less: allowance for doubtful debts	**–**	(6,571)
	76,281	85,669
Other receivables	**4,252**	9,108
Interest receivable from related companies (Note)	**1,217**	–
Other deposits	**3,282**	4,892
Prepayments	**4,404**	3,965
Total trade and other receivables	**89,436**	103,634

Note: The amount represents the interest receivable from related companies arising from the loans to the related companies at 31 December 2012 (see note 22).

The Group allows an average credit period of 30 to 45 days, extending up to five months for its trade customers. The following is an aged analysis of trade receivables net of allowance of doubtful debts presented based on dates on which revenue was recognised.

	2012 HK$'000	2011 HK$'000 (restated)
0–30 days	**41,697**	56,477
31–60 days	**19,140**	18,366
61–90 days	**3,828**	2,288
91–180 days	**3,584**	3,756
181–360 days	**8,032**	4,782
	76,281	85,669

The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. Overdue balances are reviewed regularly by senior management.

Included in the trade receivable balance of the Group are debtors with an aggregate carrying amount of HK$908,000 (2011: HK$105,000) which are past due at the end of the reporting period for which the Group has not provided for an impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 135 days (2011: 135 days).

20. Trade and Other Receivables (Continued)

Ageing of trade receivables which are past due but not impaired based on invoice date:

	2012 HK$'000	2011 HK$'000
91–180 days	**908**	105

Movement in the allowance for doubtful debts:

	2012 HK$'000	2011 HK$'000
At 1 January	**6,571**	–
(Reversal of)/allowance for doubtful debts	**(708)**	6,423
Amounts written off as uncollectible	**(5,839)**	–
Exchange differences	**(24)**	148
At 31 December	**–**	6,571

As at 31 December 2011, included in the allowance for doubtful debts were individually impaired trade receivables with an aggregate balance of HK$6,571,000, which were made based on estimated irrecoverable amounts from the outsourcing software development service provided by reference to past default experience and objective evidences.

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

	2012 HK$'000	2011 HK$'000
JPY	**67,602**	81,041

21. Available-For-Sale Financial Assets

	2012 HK$'000	2011 HK$'000
Unlisted equity securities, at cost	**16,217**	–

The unlisted investment represents investment in unlisted equity securities issued by a private entity incorporated in Japan. There is no open market for the instrument and the directors of the Company consider that the marketability of shareholdings of the Group in these instruments is low. In light of the non-controlling shareholdings held by the Group, the probabilities of the range of possible fair value of the instrument cannot be reliably assessed. The investment is therefore stated at cost less impairment.

22. Loan Receivables from Related Companies

	2012 HK$'000	2011 HK$'000
Loan receivables from related companies	**88,293**	–

Without authorisation and approval of the Board of Directors of the Company, SinoCom Japan Corporation ("SinoCom Japan"), a subsidiary of the Company, entered into a loan agreement with each of the three Japanese companies, namely SDI, Inc. ("SDI"), Falcon, Inc. ("Falcon"), and King Tech Corporation ("King Tech") (collectively, the "Borrowers") during the year ended 31 December 2012. The unsecured and committed loans facility was granted of up to JPY2,300,000,000 (equivalent to approximately HK$228,144,000), JPY1,530,000,000 (equivalent to approximately HK$151,143,000) and JPY400,000,000 (equivalent to approximately HK$39,515,000) to SDI, Falcon and King Tech on 9 July 2012, 15 August 2012 and 15 August 2012 with maturity on 28 December 2012 (later extended to 28 February 2013), 28 September 2012 and 28 December 2012 (later extended to 28 February 2013), respectively. On 9 October 2012, SinoCom Japan entered into another unsecured and committed loan agreement with Falcon pursuant to which SinoCom Japan agreed to grant a loan facility up to JPY500,000,000 (equivalent to approximately HK$49,745,000) with maturity on 28 December 2012 (later extended to 28 February 2013).

Loans (the "Loans") with an aggregate amount of JPY5,505,000,000 (equivalent to approximately HK$538,992,000) had been drawn down by the Borrowers during the year ended 31 December 2012, of which JPY4,525,000,000 (equivalent to approximately HK$433,282,000) had been repaid during the year ended 31 December 2012. In respect of the amount repaid by SDI, an amount of JPY1,700,000,000 (equivalent to approximately HK$150,367,000) was settled on 28 December 2012 and the same amount was drawn down by SDI on 4 January 2013.

Loan receivables from related companies represent the outstanding balance of the Loans granted to SDI, Falcon and King Tech amounting to JPY330,000,000 (equivalent to approximately HK$29,731,000), JPY460,000,000 (equivalent to approximately HK$41,444,000) and JPY190,000,000 (equivalent to approximately HK$17,118,000), respectively, by SinoCom Japan at 31 December 2012. The Loans were unsecured and interest bearing at 2% per annum.

Subsequent to the end of the reporting period, the interest rate of the extended loans was revised to 5% per annum on 16 January 2013 which was effective for the period from 29 December 2012 to 28 February 2013. The outstanding loans at 31 December 2012 were fully repaid by each of the Borrowers on 28 February 2013.

In the opinion of the Company's Board of Directors, the Borrowers qualify as related parties as defined under the HKAS 24 *Related Party Disclosure* because the Borrowers are entities that are significantly influenced by Mr. Li, a director and key management of the Company. Mr. Li has significant influence over the Borrowers evidenced by his involvement in negotiation, decision and arrangement of the Loans, and full cooperation such as timing of drawdowns and repayments of the Loans by the Borrowers under Mr. Li's directions.

22. Loan Receivables from Related Companies (Continued)

Details of the Loans are set out in the announcements of the Company dated 30 January 2013, 1 March 2013, 23 April 2013 and 4 July 2013.

The Group reviews the recoverable amount of loan receivables from related companies at the end of reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. The loans receivables from related companies were fully repaid subsequent to the reporting period. In this regard, the directors of the Company consider that the credit risk of the Group on loan receivables from related parties is insignificant.

The concentration of credit risk of the Group on loan receivables from related companies by geographical location is in Japan.

23. Term Deposits with Initial Terms of Over Three Months and Bank Balances and Cash

Term deposits with initial terms of over three months and bank balances and cash comprise cash held by the Group and short-term bank deposits and carry interest at effective interest rates ranging from 0.0001% to 3.5% (2011: 0.0001% to 3.5%) per annum.

The term deposits of the Group with initial terms of over three months and bank balances and cash denominated in foreign currencies at the end of the reporting period are as follows:

	2012 **HK$'000**	2011 HK$'000
US$	**3,531**	13,363
JPY	**214,659**	110,202
HK$	**14,512**	19,780

As at 31 December 2012, the bank balances of the Group denominated in RMB amounting HK$386,541,000 (2011: HK$462,722,000) are deposited with banks in the PRC. Conversion of these RMB denominated balance into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

24. Trade and Other Payables

	2012 HK$'000	2011 HK$'000
Trade payables	**11,372**	13,173
Wages and salaries payable	**84,121**	86,308
Accruals	**13,589**	1,197
Other tax payables	**5,690**	4,236
Other payables	**4,727**	2,682
	119,499	107,596

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

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

	2012 HK$'000	2011 HK$'000
0–30 days	**8,800**	10,113
31–60 days	**2,572**	3,060
	11,372	13,173

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

	2012 HK$'000	2011 HK$'000
JPY	**24,124**	31,105
HK$	**15,788**	4,332

25. Deferred Taxation

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

	Deferred tax liabilities				Deferred tax assets		
	Prepaid expenses HK$'000	Distributable profit of the PRC subsidiaries HK$'000	Gain on deemed disposal of subsidiaries HK$'000	Total HK$'000	Accrued expenses HK$'000	Allowance for doubtful debts HK$'000	Total 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 or 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 or loss	–	–	–	–	(3,748)	–	(3,748)
Exchange differences	62	–	–	62	(256)	(36)	(292)
At 31 December 2011 and 1 January 2012	1,365	7,956	12,519	21,840	(7,375)	(1,642)	(9,017)
Reversal upon payment of withholding tax	–	(198)	–	(198)	–	–	–
(Credit)/charge to profit or loss for the year	(149)	(1,097)	(12,519)	(13,765)	2,425	1,636	4,061
Exchange differences	(1)	–	–	(1)	9	6	15
At 31 December 2012	1,215	6,661	–	7,876	(4,941)	–	(4,941)

At the end of the reporting period, the Group had unused tax losses of HK$1,148,000 (2011: nil) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses of HK$1,148,000 (2011: nil) due to the unpredictability of future profit streams.

Under the EIT Law, withholding tax is imposed at 10% on dividends declared to foreign investors in respect of profit earned by PRC subsidiaries from 1 January 2008 onward, deferred taxation has been provided for in the consolidated financial statements in respect of profits of relevant PRC subsidiaries to be distributed estimated by the directors of the Company.

25. Deferred Taxation (Continued)

Withholding tax is also imposed on dividends declared by the subsidiary in Japan. At the end of the reporting period, the aggregate amount of temporary differences with undistributed earnings of the subsidiary in Japan for which deferred tax liabilities have not been recognised was HK$36,538,000 (2011: HK$28,419,000). No deferred tax liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

26. Share Capital

	Number of shares '000	HK$'000
Authorised:		
Ordinary shares of HK$0.025 each, at 1 January 2011, 31 December 2011, 1 January 2012 and 31 December 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 31 December 2011 and 1 January 2012	1,113,979	27,850
Exercise of share options (Note ii)	1,856	46
At 31 December 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 (see note 27). These shares rank pari passu with other shares in issue in all respect.

(ii) During the year ended 31 December 2012, share options to subscribe for 1,856,000 ordinary shares of HK$0.025 each were exercised at HK$0.625 per share (see note 27). These shares rank pari passu with other shares in issue in all respect.

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings.

The directors of the Company review the capital structure of the Group on a timely basis. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. As at 31 December 2012, the Group has no borrowings. The Group expects to maintain low gearing because of its cash-rich position.

27. 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 purpose of providing incentives to eligible employees, and will expire on 1 April 2014. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees to subscribe for shares in the Company.

At 31 December 2012, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 16,390,000 (2011: 31,526,000), representing 1.47% (2011: 2.83%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Options may be exercised on the date of grant of the share option or after the date on which the share option is granted over a period as the Board of Directors of the Company may determine up to the tenth anniversary of the date of grant. No consideration is payable on the grant of an option. Options are exercisable at a price that is determinable by the directors of the Company, and will not be less than the higher of the closing price of the Company's shares on the date of grant, and the average closing price of the shares for the five business days immediately preceding the date of grant.

Details of specific category of options are as follows:

Date of grant	Vesting period	Exercise price
10/11/2004	10/11/2004–09/05/2008	HK$0.625
24/01/2006	24/01/2006–23/01/2010	HK$1.3875
15/01/2007 (Note)	15/01/2007–14/01/2011	HK$1.73
28/01/2008 (Note)	28/01/2008–27/01/2011	HK$1.36
28/01/2008	28/01/2008–27/01/2013	HK$1.36

Note: On 28 January 2008, 15,750,000 share options, which represent the then outstanding options previously granted on 15 January 2007 with an exercise price of HK$1.73 per share, were cancelled and the same number of share options ("new options") were granted to the option holders with an exercise price of HK$1.36 per share and other terms remained the same as those of the old options.

27. Share Based Payments (Continued)

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

Date of grant	Outstanding at 1/1/2012	Exercised during year	Forfeited during year	Cancellation upon acceptance of mandatory unconditional cash offer by the immediate holding company (Note)	Outstanding at 31/12/2012
10/11/2004	4,756,000	(1,856,000)	–	(2,900,000)	**–**
24/01/2006	14,360,000	–	(3,900,000)	(3,740,000)	**6,720,000**
28/01/2008	12,410,000	–	(1,340,000)	(1,400,000)	**9,670,000**
	31,526,000	(1,856,000)	(5,240,000)	(8,040,000)	**16,390,000**

Note: During the year ended 31 December 2012, the immediate holding company of the Company, SJI (Hong Kong) Limited, offered mandatory unconditional cash offer to all the outstanding option holders and a total of 8,040,000 share options were cancelled.

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

Date of grant	Outstanding at 1/1/2011	Exercised during year	Forfeited during year	Outstanding at 31/12/2011
10/11/2004	4,876,000	(120,000)	–	4,756,000
24/01/2006	15,800,000	–	(1,440,000)	14,360,000
28/01/2008	13,730,000	–	(1,320,000)	12,410,000
28/01/2008	1,200,000	–	(1,200,000)	–
	35,606,000	(120,000)	(3,960,000)	31,526,000

The options granted on 10 November 2004 may be exercisable after the vesting period, during the period from the first semi-anniversary of the date of grant (the "first semi-anniversary"), being 10 May 2005 to 9 November 2014 (both days inclusive), in the following manner:

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

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

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

27. Share Based Payments (Continued)

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

(e) the remaining 25% of the opinion will be exercisable at any time on or after the third anniversary of the first semi-anniversary up to and including 9 November 2014.

The options granted on 24 January 2006 may be exercisable after the vesting period, during the period from the first anniversary of the date of grant, being 24 January 2007 to 23 January 2016 (both days inclusive), in the following manner:

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

(b) 25% of the options will be exercisable at any time on or after the first anniversary of the date of grant up to and including 23 January 2016;

(c) a further 25% of the options will be exercisable at any time on or after the second anniversary of the date of grant up to and including 23 January 2016;

(d) another 25% of the options will be exercisable at any time on or after the third anniversary of the date of grant up to and including 23 January 2016; and

(e) the remaining 25% of the options will be exercisable at any time on or after the fourth anniversary of the date of grant up to and including 23 January 2016.

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

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

(b) a further 25% of the options will be exercisable at any time on or after the first anniversary of the date of grant up to and including 28 January 2018;

(c) another 25% of the options will be exercisable at any time on or after the second anniversary of the date of grant up to and including 28 January 2018; and

(d) the remaining 25% of the options will be exercisable at any time on or after the third anniversary of the date of grant up to and including 28 January 2018.

27. Share Based Payments (Continued)

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

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

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

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

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

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

(f) the remaining 20% of the options will be exercisable at any time on or after the fifth anniversary of the date of grant up to and including 27 January 2018.

At 31 December 2012, 16,390,000 (2011: 31,526,000) share options are exercisable. The closing price of the Company's shares immediately before 10 November 2004, 24 January 2006, 28 January 2008 and 28 January 2008, the date of grant of options, was HK$2.50, HK$5.55, HK$1.34 and HK$1.34, respectively.

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised in the year ended 31 December 2012 was HK$0.94 (2011: HK$0.76).

The options granted on 10 November 2004 have a fair value of HK$0.689 per option which was determined at the date of grant using the Black-Scholes pricing model.

The options granted on 24 January 2006 have a fair value of HK$2.13 per option which was determined at the date of grant using the Black-Scholes pricing model.

The new options granted on 28 January 2008 have a fair value of HK$0.70 per option which was determined at the date of grant using the Black-Scholes pricing model.

The options granted on 28 January 2008 have a fair value of HK$0.43 per option which was determined at the date of grant using the Black-Scholes pricing model.

At the end of each reporting period, the Company revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in the profit or loss, with a corresponding adjustment to the share options reserve.

The Group recognised the total expense of HK$27,000 for the year ended 31 December 2011 in relation to share options granted by the Company.

28. Notes to the Consolidated Statement of Cash Flows

(a) Acquisition of additional equity interests in a subsidiary

In April 2011, the Group acquired a further 6.32% equity interests in an existing non-wholly owned subsidiary, SinoCom Ideas Holdings Limited ("SinoCom Ideas") from two non-controlling shareholders of the subsidiary for a cash consideration of HK$1,050,000 which was paid in April 2011. SinoCom Ideas is incorporated in the British Virgin Islands and is the holding company of SinoCom Dalian, which is principally engaged in the provision of outsourcing software development services to customers in the PRC. The difference of HK$85,000 between the amount by which the non-controlling interests are adjusted of HK$1,135,000 and the fair value of the consideration paid of HK$1,050,000 was recognised directly in equity and attributed to the owners of the Company.

(b) Disposal of subsidiaries

As a result of the transaction with DIR-BI as disclosed in note 18, the Group lost control over SinoCom DIR, SinoCom DIR Beijing and Jinan SinoCom DIR as the 40% non-controlling equity holder was able to exercise veto rights over strategic financial and operating decisions. The consolidated net assets of these entities at the date of disposal were as follows:

	25/08/2011 HK$'000
Analysis of assets and liabilities over which control was lost:	
Plant and equipment	1,949
Trade and other receivables	26,077
Amount due from the Group	62
Trade and other liabilities	(114,720)
Amount due to the Group	(48,432)
Tax liabilities	(5,307)
Bank balances and cash	168,338
Net assets disposed of	27,967
Gain on disposal of subsidiaries:	
Fair value of retained interests in SinoCom DIR	152,601
Net assets disposed of	(27,967)
Cumulative exchange difference in respect of the net assets of the subsidiaries reclassified from equity to profit or loss on loss of control of the subsidiaries	558
Gain on disposal	125,192
Net cash outflow arising on disposal:	
Bank balance and cash disposed of	168,338

28. Notes to the Consolidated Statement of Cash Flows (Continued)

(b) Disposal of subsidiaries (Continued)

The fair value of retained interests in SinoCom DIR was determined by the directors of the Company with assistance of an independent valuer based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a one-year period, and a discount rate of 17%. Cash flows beyond one-year period are extrapolated using a growth rate of 8.6%, over the projected period of five years for valuation purpose. These growth rates are based on the relevant industry growth forecasts and do not exceed the average long-term growth rates for the relevant industries. Other key assumptions for the value in use calculation and the budgeted gross margins are determined based on the past performance of SinoCom DIR and management's expectations for the market development.

29. Capital Commitments

	2012 **HK$'000**	2011 HK$'000
Capital expenditure in respect of acquisition of plant and equipment contracted for but not provided	**917**	–

30. Operating Lease Commitments

The Group as lessee:

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

	2012 **HK$'000**	2011 HK$'000
Within one year	**19,807**	32,718
In the second to fifth year inclusive	**7,103**	10,986
	26,910	43,704

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

31. Related Party Transactions

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. Pang Chor Fu and Mr. Stephen Pang to subscribe for the shares of Gotoura. Mr. Wang Xubing, a director of the Company, and Mr. Pang Chor Fu, a former independent non-executive director of the Company, had direct and indirect beneficial interest in Gotoura. The transaction was regarded as a related party transaction. Details of the transaction are disclosed in note 17.

Transactions with an associate, jointly controlled entities and ultimate holding company of the Group

During the year, the Group had significant transactions with an associate, jointly controlled entities and ultimate holding company of the Group as follows:

	2012 HK$'000	2011 HK$'000
Revenue — provision of services to a jointly controlled entity	**1,608**	4,411
Cost of services — receiving software outsourcing services from a jointly controlled entity	**4,009**	3,128
Cost of services — receiving travelling services from an associate	**2,435**	–
Administrative expense — receiving management consulting services from ultimate holding company	**454**	–

During the year ended 31 December 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.

During the year ended 31 December 2012, the Group borrowed JPY230,000,000 (equivalent to approximately HK$22,328,000) from SJI, the ultimate holding company of the Company. The amount is unsecured, non-interest bearing and has fixed term of repayment. The amount was repaid during the year ended 31 December 2012.

Outstanding balances at the end of the reporting period

	2012 HK$'000	2011 HK$'000
Amount due from a fellow subsidiary (Note a)	**9,867**	–
Amount due to ultimate holding company (Note b)	**454**	–
Amount due from a jointly controlled entity (Note b)	**–**	4,072
Amount due to a jointly controlled entity (Note b)	**–**	5,261

31. Related Party Transactions (Continued)

Outstanding balances at the end of the reporting period (Continued)

Notes:

(a) The amount represents an advance to 福建聯迪資訊科技有限公司 (Fujian Liandi Information Technology Limited) ("Fujian Liandi"), a wholly-owned subsidiary of SJI, for the intention to lease office premises located in Beijing, the PRC during the year ended 31 December 2012. The lease agreement was entered into on 18 February 2013 (see note 32). As at 31 December 2012, the amount was unsecured, non-interest bearing and had no fixed term of repayment. In the opinion of the directors of the Company, the amount will not be settled within twelve months from the end of the reporting period, hence it was classified as a non-current asset.

(b) The ageing for the amount due to ultimate holding company and the amount due from/(to) a jointly controlled entity are within 30 days based on invoice date.

Transactions with other related companies

During the year ended 31 December 2012, SinoCom Japan granted several unsecured and committed loan facilities to the Borrowers and certain loans were drawn down by the Borrowers (see note 22). In the opinion of the Board of Directors of the Company, the Borrowers were qualified as related parties and the Loans were regarded as related party transactions as defined under the HKAS 24 *Related Party Disclosure*. The interest income recognised in respect of the Loans to the Borrowers is JPY21,130,000 (equivalent to approximately HK$1,989,000) (2011: nil) for the year ended 31 December 2012. An interest receivable amounting to JPY13,504,000 (equivalent to approximately HK$1,217,000) (2011: nil) is included in trade and other receivables at 31 December 2012.

Compensation of key management personnel

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

	2012 **HK$'000**	2011 HK$'000
Salaries and other benefits	**24,294**	26,581
Retirement benefits scheme contributions	**804**	1,341
	25,098	27,922

The remuneration of directors is determined by the salary review committee. The remuneration of the key executives is determined by the internal salary review committee of five members comprising the chairman, president, and three vice presidents of the Company having regard to the performance of individuals and market trends.

32. Event after the Reporting Period

Lease arrangement

On 18 February 2013, SinoCom Beijing, a wholly-owned subsidiary of the Company, entered into a lease contract with Fujian Liandi for leasing the units on three levels situated in Beijing, the PRC at a monthly rent of RMB508,000 (equivalent to approximately HK$635,000) for a term of three years from 1 April 2013 to 31 March 2016 for use as offices. SinoCom Beijing has a right but not an obligation to renew the lease contract for a further three years on the same terms upon the expiration of its existing lease term, subject to necessary compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A security deposit equivalent to approximately three months' rent and prepayment for rent in an aggregate amount of RMB8,000,000 (equivalent to approximately HK$9,867,000) has been paid by SinoCom Beijing to Fujian Liandi. This lease contract is a continuing connected transaction as set out in the announcement of the Company dated 18 February 2013.

32. Event after the Reporting Period (Continued)

Investments

On 15 April 2013, SinoCom Japan entered into a share transfer agreement with NCXX Inc., a company listed in Japan, for a purchase of 941 shares, representing approximately 11% of the issued share capital of E-tabi Net.com Corporation ("E-tabi") at a consideration of JPY94,908,000 (equivalent to approximately HK$7,478,000). E-tabi is a private company incorporated in Japan and principally engaged in online travelling agency business. The share transfer was completed on 17 April 2013.

On 15 April 2013, SinoCom Japan entered into another share subscription agreement with Diamond Agency Corporation ("Diamond Agency"). Diamond Agency is a private company incorporated in Japan and principally engaged in advertisement agency business. Pursuant to this agreement, SinoCom Japan would subscribe 5,277,777 newly issued shares of Diamond Agency at a consideration of JPY95,000,000 (equivalent to approximately HK$7,485,000). Subsequently to the completion of the subscription, the Group held approximately 3% of the enlarged issued share capital of Diamond Agency.

Special dividend

The directors of the Company declared the special dividend of HK$0.07 per ordinary share on 9 October 2013 and the ordinary resolution of approval of special dividend was duly passed in the extraordinary general meeting of the Company on 11 November 2013.

33. Statement of Financial Position of the Company

	2012	2011
	HK$'000	HK$'000
Investments in subsidiaries	**47,057**	47,057
Due from subsidiaries	**119,472**	157,556
Other current assets	**3,014**	10,474
Other current liabilities	**(13,607)**	(14)
NET ASSETS	**155,936**	215,073
Share capital	**27,896**	27,850
Reserves	**128,040**	187,223
TOTAL EQUITY	**155,936**	215,073

Note: The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

34. Reserves

(a) Group

The amounts of the reserves and movements of the Group therein are presented in the consolidated statement of comprehensive income and consolidated statement of changes in equity.

(b) Company

	Shares premium HK$'000 (Note (c)(i))	Share redemption reserve HK$'000 (Note (c)(ii))	Contributed surplus HK$'000 (Note (c)(iii))	Shareholder's contribution HK$'000 (Note (c)(iv))	Share options reserve HK$'000 (Note (c)(v))	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2011	164,663	2,269	29,412	–	18,998	53,427	268,769
Exercise of share options (note 26(i))	93	–	–	–	(21)	–	72
Recognition of equity-settled share based payments expenses	–	–	–	–	27	–	27
Transfer of share options reserve upon forfeiture of share options	–	–	–	–	(2,007)	2,007	–
Dividends recognised as distribution (note 13)	–	–	–	–	–	(77,956)	(77,956)
Total comprehensive expense for the year	–	–	–	–	–	(3,689)	(3,689)
At 31 December 2011	164,756	2,269	29,412	–	16,997	(26,211)	187,223
At 1 January 2012	**164,756**	**2,269**	**29,412**	**–**	**16,997**	**(26,211)**	**187,223**
Exercise of share options (note 26(ii))	**1,433**	**–**	**–**	**–**	**(319)**	**–**	**1,114**
Transfer of share options reserve upon forfeiture of share options	**–**	**–**	**–**	**–**	**(5,182)**	**5,182**	**–**
Transfer of reserve upon cancellation of share options (note 27)	**–**	**–**	**–**	**1,392**	**(1,392)**	**–**	**–**
Dividends recognised as distribution (note 13)	**–**	**–**	**–**	**–**	**–**	**(39,054)**	**(39,054)**
Total comprehensive expense for the year	**–**	**–**	**–**	**–**	**–**	**(21,243)**	**(21,243)**
At 31 December 2012	**166,189**	**2,269**	**29,412**	**1,392**	**10,104**	**(81,326)**	**128,040**

34. Reserves (Continued)

(c) Nature and purpose of reserves

(i) Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) The share redemption reserve represents the aggregate amount of the share capital and share premium in relation to the repurchase of the Company's own equity instruments.

(iii) The contributed surplus of the Company represents the excess of the net assets of the subsidiaries acquired by the Company pursuant to a group reorganisation and the nominal value of the ordinary shares issued by the Company in exchange therefor.

(iv) The shareholder's contribution of the Company represents contribution from the intermediate holding company for cancellation of the Company's share options in 2012.

(v) The share options reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for equity-settled share-based payments in note 3(o) to the financial statements.

35. Principal Subsidiaries

Details of the Company's principal subsidiaries as at 31 December 2012 are as follows:

Name of subsidiary	Place of incorporation and operation	Class of capital held	Proportion ownership interest held by the Company		Principal activities
			2012	2011	
SinoCom BVI	British Virgin Islands	Ordinary shares US$3,624,502	**100%**	100%	Investment holding
SinoCom Japan	Japan	Ordinary shares JPY40,000,000	**92%**	92%	Provision of outsourcing software development services
SinoCom Beijing	PRC	Registered capital US$6,040,800	**100%**	100%	Provision of outsourcing software development and technical support services
SinoCom Development Holdings Limited	British Virgin Islands	Ordinary shares US$474,671	**100%**	100%	Investment holding
SinoCom Innovative Technology Software Beijing Co., Ltd.	PRC	Registered capital US$370,000	**100%**	100%	Provision of outsourcing software development and technical support services

35. Principal Subsidiaries (Continued)

Name of subsidiary	Place of incorporation and operation	Class of capital held	Proportion ownership interest held by the Company 2012	2011	Principal activities
SinoCom-Artm Technology	PRC	Registered capital RMB2,500,000	**80%**	80%	Provision of outsourcing software development and technical support services
SinoCom Ideas	British Virgin Islands	Ordinary shares HK$3,800,000	**94.48%**	94.48%	Investment holding
SinoCom Dalian	PRC	Registered capital HK$3,200,000	**94.48%**	94.48%	Provision of outsourcing software development and technical support services
Shensoft Shanghai	PRC	Registered capital US$232,000	**100%**	100%	Provision of outsourcing software development services
SinoCom Shensoft	British Virgin Islands	Ordinary shares US$500,000	**100%**	100%	Investment holding

The form of business structure of all above subsidiaries is limited company and the Company indirectly owns the equity interests of all of the above subsidiaries except SinoCom BVI.

Note a: None of the subsidiaries had issued any debt securities at 31 December 2012.

Note b: The above table lists the subsidiaries of the Group which, in the opinion of the Company's directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

36. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation. The new classification of the accounting items was considered to provide a more appropriate presentation of the state of affairs of the Group.

37. Approval of Financial Statements

The financial statements were approval and authorised for issue by the Board of Directors on 21 January 2014.